Bank of Cyprus Holdings

Announcement

Group Financial Results for the year ended 31 December 2019

Nicosia, 29 April 2020

EUROMONEY
AWARDS FOR EXCELLENCE
2019

Key Highlights for the year ended 31 December 2019

Good Capital Position

- Total Capital ratio of 18.0% and CET1 ratio of 14.8% (IFRS 9 transitional)

Balance Sheet Repair Continues

- Organic NPE reduction of €889 mn for FY2019, ahead of guidance
- NPEs reduced to €3.9 bn (€1.8 bn net)
- Gross NPE ratio reduced to 30%, coverage increased to 54%
- NPE portfolio sale currently delayed due to prevailing market and operational conditions resulting from COVID-19 outbreak

Active Liquidity Management

- Deposits at €16.7 bn
- Loan to deposit ratio at 64%
- Introduction of liquidity fees for specific customer groups in March 2020

Active Cost Management

- Successful completion of Voluntary Staff Exit Plan, resulting in gross annual savings of 13% (€28 mn); one-off cost of €81 mn in 4Q2019
- Full time employees reduced by 11%
- Cost to income ratio (excluding special levy and contribution to SRF) at 59% in FY2019
- 18% reduction in number of branches in 2019 supported by digital transformation
- 70% of customers currently digitally engaged

Performance in 4Q2019

- New lending of €443 mn for 4Q2019, totalling €2 bn for FY2019, up 9% yoy, and highest since FY2015
- Total Income of €156 mn, Operating profit of €53 mn for 4Q2019
- Cost of risk at 0.9% for 4Q2019
- Underlying result of a loss after tax from organic operations of €6 mn for 4Q2019 and a profit of €36 mn for FY2019
- Provisions/net loss relating to NPE sales of €86 mn, including, as previously announced, loan credit losses within the context of IFRS 9 of €75 mn, as a result of the anticipated balance sheet de-risking through further NPE sales in the future
- Loss after tax of €186 mn for 4Q2019 and €70 mn for FY2019

Group Chief Executive Statement

"Cyprus and the world are coming to terms with a global pandemic that is changing the way we run our businesses and our daily lives. COVID-19 is first and foremost a health crisis, presenting an unprecedented external economic shock. The Bank's priorities are clear: protect the health of our colleagues and customers, support them and the Cypriot economy, while also ensuring the operational resilience of the Bank. We are determined to help all our stakeholders confront this challenge.

The Government's swift and decisive reaction to the outbreak of COVID-19 in Cyprus has successfully contained the spread of the pandemic in the country. This presents very encouraging statistics, allowing the Government to consider the gradual relaxation of containment measures, currently expected to be phased out from early May. During April the Cyprus Government has successfully raised a total amount of €3.0 bn from the international and local markets in order to support the measures undertaken to confront the economic impact of the COVID-19 outbreak and to strengthen state reserves.

The package of policy measures announced by the European Central Bank and the European Commission, as well as the unprecedented fiscal and other measures of the Cyprus Government, should help mitigate the negative impact of the crisis and support the recovery of the Cypriot economy.

As the leading bank in Cyprus, we have a good capital position and a significant liquidity surplus of over €3 bn, as we head into these uncertain times, enabling us to support our customers and the economy. We have considerable experience in managing challenging circumstances. We maintain our relentless focus on asset quality, funding, capital and efficiency to ensure the Bank maintains its financial strength, but we are equally flexible to adjust our short-term priorities as needed to react to the emerging conditions of these unprecedented times. Our investment in our digital transformation programme has not only strengthened our operational resilience, but more importantly, has enabled us to quickly respond to the changing landscape and fully deploy our digital service channels to the benefit of customers. The increased digital engagement level of our customers during this period is impressive at 70% as of the end of March 2020 and we expect further increases.

Our results for year 2019 reflect the continued progress against our core objective of balance sheet repair.

During the year, we completed the sale of c.€2.7 bn non-performing loans in Project Helix, adding 140 bps of capital, whilst organic NPE reduction surpassed our organic target of c.€800 mn for 2019. Organic NPE reduction in the fourth quarter amounted to €205 mn, bringing the total organic reduction in 2019 to €889 mn. Since the peak in 2014, we have now reduced the stock of NPEs by 74% to €3.9 bn. This stock of NPEs is now covered by 54% loan credit losses. Overall, since 2014 we have managed a reduction in NPEs of €11.1 bn, of which €8.4 bn has been through organic actions.

Against the backdrop of market volatility arising out of the COVID-19 pandemic, we continue to work with our advisers towards the sale of a portfolio of NPEs. Due to the prevailing market and operational conditions, this process is likely to take longer than originally anticipated. In the context of IFRS 9, the Bank recognised additional loan credit losses of €75 mn in 4Q2019, with a negative capital impact of 46 bps. On completion, the Group's capital ratios would benefit from the RWA reduction, subject to regulatory approval.

Following the outbreak of COVID-19, we are now focused on arresting any potential asset quality deterioration. Once economic conditions normalise, we expect to resume our efforts to improve our asset quality position by seeking solutions, both organic and inorganic, to make the Bank a stronger and safer institution, capable of continuing to support the local economy.

The Bank's capital position remains good and in excess of our regulatory requirements. As at 31 December 2019, our capital ratios (IFRS 9 transitional) were CET1 of 14.8% and Total Capital ratio of 18.0%.

Our deposits remained broadly flat during the year at €16.7 bn and we reduced our cost of deposits by 25 bps in 2019 and 60 bps in the last two years. New lending exceeded €2 bn in 2019, an increase of 9% compared to the prior year and the highest level since 2015, helping support the Cypriot economy. Our loan to deposit ratio stood at 64% at the year end.

In response to the persistently low interest rate environment in Europe, we have remained focused on actively managing our funding costs and reducing our cost base. In the fourth quarter we reduced the number of employees by 11% through a voluntary staff exit plan, representing a gross annual saving in staff costs of 13%. During the year, we also reduced the number of branches by 18%, as the percentage of digitally engaged customers increased by 6 p.p. to 70% in the 15 months to 31 March 2020. In addition, in March 2020, we introduced liquidity fees for specific customer groups.

In 2019, we generated total income of €651 mn and a positive operating result of €241 mn. The underlying result for the year was a profit of €36 mn. After the one-off cost relating to the completion of the voluntary staff exit plan of €81 mn, the provisions/net loss relating to the NPE sales of €92 mn (including additional loan credit losses of €75 mn relating to further NPE sales in the future), the net loss from the sale of our investment in CNP of €21 mn and the net positive impact from the reversal of the impairment of the deferred tax asset of €88 mn, the overall result for the year 2019 was a loss of €70 mn.

Group Chief Executive Statement (continued)

The current economic uncertainty means that we cannot at this stage have clear visibility of the future impact of COVID-19 on the Group's operations and financial results. As a consequence of the current challenging economic conditions resulting from the COVID-19 outbreak, we will update the macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for 1Q2020 in line with the relevant regulatory guidance, and anticipate that this may result in increased organic provisions in 1Q2020, although the exact quantum of any such increase is as yet unknown. Whilst we are currently seeing lower transactional income and lower demand for loans, the on-going economic uncertainty means that we do not have sufficient visibility about the likely future impact of COVID-19 on the Group's operations or financial results, and are therefore currently not in a position to provide guidance for the current financial year. However, we are confident that the Bank's good capital base and strong liquidity, position us to be able to support our customers through this period of extreme volatility, playing our part in limiting the impact of the pandemic in Cyprus.

Our medium-term strategic priorities remain clear, with a sustained focus on strengthening our balance sheet, and improving asset quality and efficiency in order to continue to play a vital role in supporting the Cypriot economy.

Panicos Nicolaou

Update on COVID-19

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. On the basis of currently available information, the Group is not in a position to accurately assess the magnitude of the future impact of COVID-19 on the Group's operations and financial results, as this will principally depend on the rate and extent of the spread of the virus, its direct and indirect impact on customers and the effectiveness of the regulatory and fiscal measures taken to support the economy and mitigate the impact of the virus.

In common with other European banks, the persistently low interest rate environment continues to present a challenge to the Group's profitability. As a consequence of the current challenging economic conditions resulting from the COVID-19 outbreak, the Group will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for 1Q2020 in line with the relevant regulatory guidance, and anticipates that this may result in increased organic provisions in 1Q2020, although the exact quantum of any such increase is as yet unknown. Despite the lower transactional income and lower demand for loans currently observed, the on-going economic uncertainty means that the Group does not have sufficient visibility about the likely future impact of COVID-19 on its operations or financial results, and therefore, is currently not in a position to provide guidance for the current financial year. However, the Group's good capital base and strong liquidity, position it to be able to support its customers through this period of extreme volatility.

Pandemic Plan and Operational Impact due to COVID-19

COVID-19 is a health crisis, presenting an unprecedented external economic shock. The Bank's priorities are clear.

Key priorities

- Safeguarding the health of staff and customers, while ensuring operational resilience of the Bank
- Supporting customers affected by COVID-19 and wider Cypriot economy
- Provision of liquidity to affected businesses and households to alleviate short term cash flow burden

Measures taken to Safeguard Health and Safety

- Establishment of a committee to monitor COVID-19 measures, trace incidents and to provide regular updates to staff
- Implementation of Health and Safety measures in line with the guidelines and recommendations issued by Ministry of Health
- Special purpose leave for employees that belong to vulnerable groups
- Enhanced intensive clean-ups, a precautionary disinfection procedure is in place throughout the Bank
- Shipment of masks, gloves and sanitisers to branches
- Participation in Government's COVID-19 testing schemes

Measures taken to Ensure Operational Resilience

- Activation of the Pandemic Plan to ensure operational resilience and no disruption of the day-to-day activities
- Splitting the operations of critical units to separate locations and provision of remote access availability
- Branch network operates on a rotational basis, as a precautionary measure
- 44% of staff (excluding branches) work remotely
- Digital service channels provide alternative solutions for customers for carrying out daily banking transactions online
- 70% of customers are currently digitally engaged

Supporting customers affected by COVID-19 and wider Cypriot economy through the provision of liquidity to alleviate short term cash flow burden

- Implementation of moratorium of loan instalments (both capital and interest) for nine months, available to all customers (both businesses and private individuals) with less than 30 days past due as at 29 February 2020, as per the Government measures
    - Over 20,000 applications received to date (c.€5.2 bn)
- Provision of liquidity to affected businesses and households to alleviate short term cash flow burden through
    - Government guaranteed facilities (approved by the Council of Ministers; pending approval by Parliament)
    - Short term funding based on Central Bank of Cyprus (CBC) directive
    - Other lending products

For further information please refer to the sections C 'Operating Environment' and D 'Business Overview' on pages 33-37.

A. Group Financial Results – Statutory Basis

Audited Consolidated Income Statement for the year ended 31 December 2019

	2019	2018 (restated*)
	€000	€000
Continuing operations		
Turnover	**910,576**	1,012,947
Interest income	**454,997**	557,065
Income similar to interest income	**53,180**	52,054
Interest expense	**(93,493)**	(144,024)
Expense similar to interest expense	**(48,708)**	(46,042)
Net interest income	**365,976**	419,053
Fee and commission income	**171,715**	175,583
Fee and commission expense	**(9,821)**	(20,312)
Net foreign exchange gains	**26,596**	37,688
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	**18,675**	46,670
Insurance income net of claims and commissions	**57,660**	52,912
Net gains/(losses) from revaluation and disposal of investment properties	**2,249**	(11,845)
Net gains on disposal of stock of property	**25,952**	30,437
Other income	**28,938**	25,604
	687,940	755,790
Staff costs	**(306,713)**	(216,740)
Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies	**(43,609)**	(25,095)
Other operating expenses	**(242,622)**	(234,891)
	94,996	279,064
Net gains on derecognition of financial assets measured at amortised cost	**8,187**	27,825
Credit losses to cover credit risk on loans and advances to customers	**(232,451)**	(329,083)
Credit losses of other financial instruments	**(4,790)**	(1,610)
Impairment of non-financial assets	**(26,081)**	(18,651)
Loss before share of profit from associates and remeasurement	**(160,139)**	(42,455)
Remeasurement of investment in associate upon classification as held for sale	**(25,943)**	-
Share of profit from associates	**5,513**	9,095
Loss before tax from continuing operations	**(180,569)**	(33,360)
Income tax	**112,831**	(75,916)
Loss after tax from continuing operations	**(67,738)**	(109,276)
Discontinued operations		
Profit after tax from discontinued operations	**-**	7,243
Loss for the year	**(67,738)**	(102,033)
Attributable to:		
Owners of the Company – continuing operations loss	**(70,275)**	(110,764)
Owners of the Company – discontinued operations profit	**-**	7,243
Total loss attributable to the owners of the Company	**(70,275)**	(103,521)
Non-controlling interests – continuing operations profit	**2,537**	1,488
Loss for the year	**(67,738)**	(102,033)
Basic and diluted loss per share attributable to the owners of the Company (€ cent) – continuing operations	**(15.8)**	(24.8)
Basic and diluted loss per share attributable to the owners of the Company (€ cent)	**(15.8)**	(23.2)

*Please refer to the section on “Comparative Information on Statutory Basis” on the next page.

A. Group Financial Results – Statutory Basis (continued)

Audited Consolidated Balance Sheet as at 31 December 2019

	2019	2018 (restated)	2017 (restated)
Assets	**€000**	€000	€000
Cash and balances with central banks	**5,060,042**	4,610,491	3,393,934
Loans and advances to banks	**320,881**	472,532	1,192,633
Derivative financial assets	**23,060**	24,754	18,027
Investments	**1,682,869**	777,104	830,483
Investments pledged as collateral	**222,961**	737,587	290,129
Loans and advances to customers	**10,721,841**	10,921,786	14,602,454
Life insurance business assets attributable to policyholders	**458,852**	402,565	429,890
Prepayments, accrued income and other assets	**243,930**	256,002	226,105
Stock of property	**1,377,453**	1,426,857	1,486,979
Deferred tax assets	**379,126**	301,778	383,498
Investment properties	**136,197**	128,006	174,089
Property and equipment	**288,054**	260,723	279,814
Intangible assets	**178,946**	170,411	165,952
Investments in associates and joint venture	**2,393**	114,637	118,113
Non-current assets and disposal groups held for sale	**26,217**	1,470,038	6,500
Total assets	**21,122,822**	22,075,271	23,598,600
Liabilities			
Deposits by banks	**533,404**	431,942	495,308
Funding from central banks	**-**	830,000	930,000
Repurchase agreements	**168,129**	248,945	257,322
Derivative financial liabilities	**50,593**	38,983	50,892
Customer deposits	**16,691,531**	16,843,558	17,849,919
Insurance liabilities	**640,013**	591,057	605,448
Accruals, deferred income, other liabilities and other provisions	**324,246**	285,483	306,227
Pending litigation, claims, regulatory and other matters	**108,094**	116,951	138,375
Subordinated loan stock	**272,170**	270,930	302,288
Deferred tax liabilities	**46,015**	44,282	46,113
Non-current liabilities and disposal group held for sale	**-**	5,812	-
Total liabilities	**18,834,195**	19,707,943	20,981,892
Equity			
Share capital	**44,620**	44,620	44,620
Share premium	**1,294,358**	1,294,358	2,794,358
Revaluation and other reserves	**210,701**	190,411	273,708
Retained earnings/(accumulated losses)	**490,286**	591,941	(527,128)
Equity attributable to the owners of the Company	**2,039,965**	2,121,330	2,585,558
Other equity instruments	**220,000**	220,000	-
Total equity excluding non-controlling interests	**2,259,965**	2,341,330	2,585,558
Non-controlling interests	**28,662**	25,998	31,150
Total equity	**2,288,627**	2,367,328	2,616,708
Total liabilities and equity	**21,122,822**	22,075,271	23,598,600

Comparative Information on Statutory Basis

Please refer to Note 2.38 of the Consolidated Financial Statements for the year ended 31 December 2019 for details on the restatements on comparative information. The changes did not have an impact on the results for the year or the equity of the Group.

B. Group Financial Results – Underlying Basis

Unaudited Consolidated Income Statement

€ mn	FY2019[1]	FY2018[1,2]	4Q2019[1]	3Q2019[1]	2Q2019[1]	1Q2019[1]	(4q vs 3q) ±%	(FY) Yoy ±%
Net interest income	344	331	84	90	85	85	-7%	4%
Net fee and commission income	150	162	39	36	38	37	5%	-8%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	38	67	4	8	16	10	-50%	-43%
Insurance income net of claims and commissions	58	53	16	12	18	12	36%	9%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	32	18	6	10	12	4	-30%	73%
Other income	29	26	7	6	8	8	22%	13%
Total income	**651**	**657**	**156**	**162**	**177**	**156**	-4%	-1%
Staff costs	(220)	(212)	(53)	(55)	(56)	(56)	0%	4%
Other operating expenses	(165)	(156)	(43)	(38)	(43)	(41)	15%	6%
Special levy and contribution to Single Resolution Fund	(25)	(25)	(7)	(6)	(6)	(6)	-2%	-1%
Total expenses	**(410)**	**(393)**	**(103)**	**(99)**	**(105)**	**(103)**	5%	4%
Operating profit	**241**	**264**	**53**	**63**	**72**	**53**	-17%	-9%
Loan credit losses	(146)	(135)	(29)	(30)	(40)	(47)	-3%	8%
(Impairments)/reversal of impairments of other financial and non-financial assets	(22)	(20)	(13)	1	(9)	(1)	-	12%
(Provisions)/reversal of provisions for litigation, claims, regulatory and other matters	(10)	(23)	(7)	(6)	3	(0)	19%	-54%
Total loan credit losses, impairments and provisions	**(178)**	**(178)**	**(49)**	**(35)**	**(46)**	**(48)**	41%	0%
Profit before tax and non-recurring items	**63**	**86**	**4**	**28**	**26**	**5**	-88%	-28%
Tax	(3)	3	(2)	(1)	2	(2)	167%	-
(Profit)/loss attributable to non-controlling interests	(2)	(1)	0	0	(2)	(0)	5%	71%
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**58**	**88**	**2**	**27**	**26**	**3**	-95%	-35%
Advisory and other restructuring costs – organic	(22)	(42)	(8)	(4)	(4)	(6)	63%	-49%
Profit/(loss) after tax – organic (attributable to the owners of the Company)	**36**	**46**	**(6)**	**23**	**22**	**(3)**	-	-22%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(81)	-	(81)	-	-	-	-	-
Provisions/net (loss)/profit relating to NPE sales[3]	(92)	(83)	(86)	(4)	3	(5)	-	12%
(Loss)/profit on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	(21)	9	0	0	(23)	2	-	-
Reversal of impairment of DTA and impairment of other tax receivables	88	(79)	(13)	-	-	101	-	-
Profit from discontinued operations (UK)	-	3	-	-	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(70)**	**(104)**	**(186)**	**19**	**2**	**95**	-	-32%

B. Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios[1,2]	**FY2019[1]**	**FY2018[1,2]**	**4Q2019[1]**	**3Q2019[1]**	**2Q2019[1]**	**1Q2019[1]**	(4q vs 3q) ±%	(FY) Yoy ±%
Net Interest Margin (annualised)	1.90%	1.82%	1.87%	1.99%	1.89%	1.88%	-12 bps	+8 bps
Cost to income ratio	63%	60%	67%	61%	59%	66%	+6 p.p.	+3 p.p.
Cost to income ratio excluding special levy and contribution to SRF	59%	56%	63%	57%	56%	62%	+6 p.p.	+3 p.p.
Operating profit return on average assets (annualised)	1.1%	1.2%	1.0%	1.2%	1.3%	1.0%	-0.2 p.p.	-0.1 p.p.
Basic earnings/(losses) per share attributable to the owners of the Company - organic (€ cent)	7.97	10.19	(1.26)	5.22	4.89	(0.88)	(6.48)	(2.22)
Basic (losses)/earnings per share attributable to the owners of the Company (€ cent)	(15.75)	(23.21)	(41.67)	4.08	0.61	21.23	(45.75)	7.46

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net (loss)/profit relating to NPE sales' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability. 3. 'Provisions/net (loss)/profit relating to NPE sales' refer to the net loss on transactions completed during FY2019, net loan credit losses on transactions under consideration at 31 December 2019, as well as the restructuring costs relating to these trades. For further details please refer to Section B.3.4. 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 year ended 31 December 2019 on the 'underlying basis' which the management believes it best fits the true measurement of the performance and position of the Group. Reconciliations are included in section **B.1 'Unaudited reconciliation of the Income Statement for the year ended 31 December 2019 between statutory basis and underlying basis'** below and in 'Definitions and explanations on Alternative Performance Measures Disclosures' of the Annual Financial Report for the year ended 31 December 2019 to allow for the comparability of the underlying basis to statutory information.

In addition, the following changes were made in the underlying basis, when compared with previous disclosures.

Project Helix (from Unaudited Consolidated Income Statement, footnote 1)

Reclassifications effected to comparative information were made so that items relating to the NPE sale (Project Helix) are disclosed under non-recurring items within 'Provisions/net (loss)/profit relating to NPE sales' under the underlying basis. Specifically, net interest income of €89 mn, fee and commission income of €4 mn, total expenses of €26 mn (comprising staff costs of €5 mn, operating expenses of €2 mn and restructuring costs of €19 mn), as well as loan credit losses of €150 mn, relating to the year ended 31 December 2018, are disclosed under non-recurring items within 'Provisions/net (loss)/profit relating to NPE sales' under the underlying basis.

Reclassifications to current year information for items relating to the NPE sale (Project Helix) are disclosed under non-recurring items within 'Provisions/net (loss)/profit relating to NPE sales' under the underlying basis. These are disclosed in Section 'B.1. Unaudited reconciliation of the Income Statement for the year ended 31 December 2019 between statutory basis and underlying basis'.

IFRIC (from Unaudited Consolidated Income Statement, footnote 2)

Reclassifications to comparative information were also made for unrecognised interest on previously credit impaired loans which cured during the year ended 31 December 2018, amounting to €33 mn. This was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC discussion, which took place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).

B. Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Balance Sheet

€ mn	31.12.2019	31.12.2018 (restated[5])	±%
Cash and balances with central banks	5,060	4,610	10%
Loans and advances to banks	321	473	-32%
Debt securities, treasury bills and equity investments	1,906	1,515	26%
Net loans and advances to customers	10,722	10,922	-2%
Stock of property	1,378	1,427	-3%
Investment properties	136	127	6%
Other assets	1,574	1,531	3%
Non-current assets and disposal groups held for sale	26	1,470	-98%
Total assets	**21,123**	**22,075**	**-4%**
Deposits by banks	533	432	23%
Funding from central banks	-	830	-100%
Repurchase agreements	168	249	-32%
Customer deposits	16,692	16,844	-1%
Subordinated loan stock	272	271	0%
Other liabilities	1,169	1,082	8%
Total liabilities	**18,834**	**19,708**	**-4%**

Shareholders' equity	**2,040**	**2,121**	**-4%**
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	**2,260**	**2,341**	**-3%**
Non-controlling interests	29	26	10%
Total equity	**2,289**	**2,367**	**-3%**
Total liabilities and equity	**21,123**	**22,075**	**-4%**

Key Balance Sheet figures and ratios	**31.12.2019**	**31.12.2018 Pro forma[3]**	**31.12.2018[4]**	**± 2019 vs 2018 Pro forma**
Gross loans (€ mn)	**12,822**	13,148	15,900	-2%
Allowance for expected loan credit losses (€ mn)	**2,096**	2,254	3,852	-7%
Customer deposits (€ mn)	**16,692**	16,844	16,844	-1%
Loans to deposits ratio (net)	**64%**	65%	72%	-1 p.p.
NPE ratio	**30%**	36%	47%	-6 p.p.
NPE coverage ratio	**54%**	47%	52%	+7 p.p.
Leverage ratio	**10.0%**	10.0%	10.0%	-
Capital ratios and risk weighted assets	**31.12.2019**	**31.12.2018 Pro forma[3]**	**31.12.2018[4]**	**± 2019 vs 2018 Pro forma**
Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)[1]	**14.8%**	15.4%	11.9%[2]	-60 bps
Total capital ratio	**18.0%**	18.3%	14.9%	-30 bps
Risk weighted assets (€ mn)	**12,890**	14,016	15,373	-8%

1.The CET1 FL ratio as at 31 December 2019 (including the full impact of IFRS 9) amounts to 13.1% (compared to 13.6% and 13.3% pro forma for CNP and VEP as at 30 September 2019, 13.3% and 13.5% pro forma for CNP as at 30 June 2019, 11.9% and 13.3% pro forma for Helix as at 31 March 2019, and 10.1% and 13.5% pro forma for DTC and Helix as at 31 December 2018). 2. The CET1 ratio transitional also for DTA as at 31 December 2018 stood at 12.1%. 3. Pro forma for DTA and Helix (see footnote 4) as at 31 December 2018. 4. Ignoring the classification of the following portfolios as non-current assets held for sale as at 31 December 2018: Helix of €1,148 mn (NBV) and Velocity1 of €6 mn (NBV). 5. Comparative information was restated following the change in the classification of stock of properties which are leased out under operating leases as investment properties. Please refer to Note 2.38 of the Consolidated Financial Statements for the year ended 31 December 2019 for details on the restatements on comparative information. The changes did not have an impact on the results for the year or the equity of the Group. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

B. Group Financial Results – Underlying Basis (continued)

B.1 Unaudited reconciliation of the Income Statement for the year ended 31 December 2019 between statutory basis and underlying basis

€ mn	Underlying basis	Helix portfolio	NPE sales	Investment in associate	Tax related items	Other	Statutory basis
Net interest income	344	34	-	-	-	(12)	366
Net fee and commission income	150	12	-	-	-	-	162
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	38	-	-	-	-	7	45
Insurance income net of claims and commissions	58	-	-	-	-	-	58
Net gains from revaluation and disposal of investment properties and on disposal of stock of property	32	-	-	-	-	(4)	28
Other income	29	-	-	-	-	-	29
Total income	**651**	**46**	**-**	**-**	**-**	**(9)**	**688**
Total expenses	**(410)**	**(36)**	**(15)**	**-**	**(19)**	**(113)**	**(593)**
Operating profit	**241**	**10**	**(15)**	**-**	**(19)**	**(122)**	**95**
Loan credit losses	(146)	(16)	(71)	-	-	9	(224)
Impairments of other financial and non-financial assets	(22)	-	-	-	(8)	-	(30)
Provisions for litigation, claims, regulatory and other matters	(10)	-	-	-	-	10	-
Remeasurement of investment in associate upon classification as held for sale	-	-	-	(26)	-	-	(26)
Share of profit from associates	-	-	-	5	-	-	5
Profit/(loss) before tax and non-recurring items	**63**	**(6)**	**(86)**	**(21)**	**(27)**	**(103)**	**(180)**
Tax	(3)	-	-	-	115	-	112
Profit attributable to non-controlling interests	(2)	-	-	-	-	-	(2)
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	**58**	**(6)**	**(86)**	**(21)**	**88**	**(103)**	**(70)**
Advisory and other restructuring costs - organic	(22)	-	-	-	-	22	-
Profit/(loss) after tax - organic* (attributable to the owners of the Company)	**36**	**(6)**	**(86)**	**(21)**	**88**	**(81)**	**(70)**
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(81)	-	-	-	-	81	-
Provisions/net loss relating to NPE sales	(92)	6	86	-	-	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	(21)	-	-	21	-	-	-
Reversal of impairment of DTA and impairment of other tax receivables	88	-	-	-	(88)	-	-
Loss after tax - attributable to the owners of the Company	**(70)**	**-**	**-**	**-**	**-**	**-**	**(70)**

*This is the profit/(loss) after tax (attributable to the owners of the Company), before restructuring costs relating to the voluntary staff exit plan (VEP), the provisions/net loss relating to NPE sales (for further details please refer to Section B.3.4), the net loss on remeasurement of investment in associate upon classification as held for sale (CNP), and the reversal of impairment of DTA and impairment of other tax receivables.

B. Group Financial Results – Underlying Basis (continued)

B.1 Unaudited reconciliation of the Income Statement for the year ended 31 December 2019 between statutory basis and underlying basis (continued)

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

Helix portfolio

- Net interest income of €34 mn and net fee and commission income of €12 mn relating to the NPE sale (Helix) is disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- Total expenses include staff costs of €6 mn, restructuring costs of €10 mn and operating expenses of €20 mn relating to the NPE sale (Helix), and are presented within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- Net loan credit losses of €16 mn are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.

NPE sales

- Total expenses include restructuring costs of €15 mn, mainly relating to the sale of NPEs and are presented within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- Net loan credit losses of €71 mn within the context of IFRS 9 were recorded as a result of the anticipated balance sheet de-risking through further NPE sales in the future and are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.

Investment in associate

- Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates of €21 mn comprises the share of profit from associate of €5 mn which is reported in the 'Share of profit from associates' under the statutory basis and the loss on remeasurement of €26 mn which is classified as 'Remeasurement of investment in associate upon classification as held for sale' under the statutory basis.

Tax related items

- Reversal of impairment of the deferred tax asset amounting to €115 mn included within 'Income Tax' under the statutory basis is classified as a non-recurring item and disclosed within 'Reversal of impairment of DTA and impairment of other tax receivables' under the underlying basis. Similarly, levy in the form of a guarantee fee relating to the revised income tax legislation of €19 mn, which has been disclosed within 'Reversal of impairment of DTA and impairment of other tax receivables' under the underlying basis, is disclosed within 'Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies' under the statutory basis.
- Impairment of other financial assets of €8 mn, which are included in 'Credit losses of other financial instruments' under the statutory basis, relate to the impairment of Greek tax receivables and are classified as a non-recurring item and disclosed within 'Reversal of impairment of DTA and impairment of other tax receivables' under the underlying basis.

Other reclassifications

- Advisory and other restructuring costs of approximately €22 mn included in 'Other operating expenses' under the statutory basis are separately presented under the underlying basis, since they represent one-off items.
- Provisions for litigation, claims, regulatory and other matters amounting to €10 mn included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis, since they mainly relate to cases that arose outside the normal activities of the Group.
- Restructuring costs relating to voluntary staff exit plan amounting to €81 mn and included within 'Staff costs' under the statutory basis, are separately presented under the underlying basis, since they represent one-off items.
- Net gains on loans and advances to customers at FVPL of €3 mn included in 'Loan credit losses' under the underlying basis are included in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis. Their classification under the underlying basis is consistent to the net losses on loans and advances to customers at amortised cost.
- Profit from the disposal of subsidiaries of c.€4 mn included in 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' under the underlying basis, is included in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis, since it is considered as a one-off item.
- An amount of c.€12 mn relating to a one - off charge included in 'Net interest income' under the statutory basis, is presented within 'Loan credit losses' under the underlying basis, given that this was a non-recurring item, which is related to a change in the method of amortising arrangement fees.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,260 mn at 31 December 2019, compared to €2,454 mn at 30 September 2019 and €2,341 mn at 31 December 2018. Shareholders' equity totalled €2,040 mn at 31 December 2019, compared to €2,234 mn at 30 September 2019 and €2,121 mn at 31 December 2018.

The **Common Equity Tier 1 capital (CET1) ratio on an IFRS 9 transitional basis** stood at 14.8% at 31 December 2019, compared to 15.2% at 30 September 2019 (and 14.9% pro forma for the sale of investment in CNP Cyprus Insurance Holdings Ltd (CNP) (referred to as "pro forma for CNP") and for the voluntary staff exit plan (VEP), collectively referred to as "pro forma for CNP and VEP"), to 14.9% at 30 June 2019 (and 15.2% pro forma for CNP) and to 11.9% at 31 December 2018 (adjusted to take into account the deferred tax assets (DTAs) which were fully phased in as of 1 January 2019). During 4Q2019 the CET1 ratio was positively affected mainly by the decrease in risk weighted assets (RWAs) and the completion of the sale of investment in CNP, and negatively affected mainly by the one-off cost of €81 mn for the completion of the Voluntary Staff Exit Plan and the additional loan credit losses (within the context of IFRS 9) of €75 mn, as a result of the anticipated balance sheet de-risking through further NPE sales in the future.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. The impact on the capital position for the year 2018 was 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019 and to 30% (cumulative) for the year 2020. At 1 January 2020, the **CET1 ratio on an IFRS 9 transitional basis** stood at 14.5%, resulting mainly from the phasing-in of the transitional arrangements for IFRS 9.

The **CET1 ratio on a fully loaded basis (including the full impact of IFRS 9)** amounted to 13.1% as at 31 December 2019, compared to 13.6% at 30 September 2019 (and 13.3% pro forma for CNP and VEP), and to 10.1% at 31 December 2018 (and 13.5% pro forma for DTC and Helix). On a transitional basis and on a fully phased-in basis, after the five-year period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The **Total Capital ratio** stood at 18.0% as at 31 December 2019, compared to 18.2% as at 30 September 2019 (and 17.9% pro forma for CNP and VEP) and to 14.9% at 31 December 2018 (and 18.3% pro forma for DTC and Helix). At 1 January 2020, the **Total Capital ratio** stood at 17.7%, resulting mainly from the phasing-in of the transitional arrangements for IFRS 9.

The Group's capital ratios are above the **minimum CET1 regulatory capital requirement of 10.5%** (comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%) and the **overall Total Capital requirement of 14.0%,** comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a 3.0% Pillar II requirement (in the form of CET1), the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The European Central Bank (ECB) has also provided non-public guidance for an additional Pillar II CET1 buffer. Pillar II add-on capital requirements derive from the context of the Supervisory Review and Evaluation Process (SREP), which is a point in time assessment, and are therefore subject to change over time.

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

Following the annual SREP performed by the ECB in 2019 and based on the **final 2019 SREP decision** received in December 2019, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the Other Systemically Important Institution Buffer. The Group's phased-in CET1 capital ratio will be **11.0%**, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (fully phased-in as of 1 January 2019) and the Other Systemically Important Institution Buffer of 1.0%. The Group's Total Capital requirement will be **14.5%**, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%. The final 2019 SREP decision is effective from January 2020.

The recent developments on the regulatory capital ratios due to the COVID-19 outbreak are set out further below.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

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

The Group capital ratios remain above the SREP requirements.

Based on the SREP decisions of prior years, the Company and the Bank were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2019 and 2018. Following the 2019 SREP decision, the Company and the Bank are still under equity dividend distribution prohibition. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders, which are eligible as CET1 capital. No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company or the Bank.

Share premium reduction

Bank

The Bank will proceed (subject to approvals mainly by the ECB and the Court of Cyprus) with a capital reduction process which will result in the reclassification of c.€619 mn of the Bank's share premium balance as distributable reserves, which shall be available for distribution to the shareholders of the Bank, resulting in total net distributable reserves of c.€800 mn on a pro forma basis (31 December 2019). The reduction of capital will not have any impact on regulatory capital or the total equity position of the Bank or the Group.

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

Company

The Company (Bank of Cyprus Holdings PLC) will proceed (subject to approval by the shareholders, the ECB and the Irish High Court) with a capital reduction process which will result in the reclassification of €700 mn of the Company's share premium as distributable reserves. This will increase the distributable reserves of the Company to c.€1 bn on a pro forma basis (31 December 2019). The capital reduction has been proposed as a special resolution for approval by shareholders at the Company's Annual General Meeting scheduled on 26 May 2020. The capital reduction will not have any impact on regulatory capital or the total equity position of the Company, the Bank or the Group.

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

Additional Tier 1

In December 2018, the Company proceeded with the issuance of €220 mn of Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable on a discretionary basis, semi-annually. The coupon payments to AT1 holders were made in June and December 2019 and were recognised in retained earnings.

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) were adopted by the Cyprus Parliament on 1 March 2019 and published in the Official Gazette of the Republic on 15 March 2019. The law amendments cover the utilisation of income tax losses transferred from Laiki Bank to the Bank in March 2013. The introduction of CRD IV in January 2014 and its subsequent phasing-in led to a more capital-intensive treatment of this DTA for the Bank. The law amendments resulted in an improved regulatory capital treatment, under Capital Requirements Regulation (EU) No. 575/2013 ("CRR"), of the DTA amounting to c.€285 mn or a CET1 uplift of c.190 bps.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

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

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, potentially including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already acknowledged to maintain the conversion of such DTAs into tax credits. In anticipation of such modifications the Group has recorded an additional amount of €13 mn by way of an estimated additional fee (for the years 2018 and 2019), bringing the total guarantee fee recognised for FY2019 to €19 mn.

Project Helix

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

Sale of investment in CNP Cyprus Insurance Holdings Ltd

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

Voluntary Staff Exit Plan

In October 2019, the Group completed a voluntary staff exit plan (VEP) at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019, resulting in a negative impact of c.60 bps on both the Group's CET1 and Total Capital ratios.

Further NPE sales in the future

Against the backdrop of market volatility arising out of the COVID-19 pandemic, the Group continues to work with its advisers towards the sale of a portfolio of NPEs in the future. Due to prevailing market and operational conditions, this process is likely to take longer than originally anticipated. In the context of IFRS 9, the Bank recognised additional loan credit losses of €75 mn in 4Q2019, with a negative capital impact of 46 bps, as a result of the anticipated balance sheet de-risking through further NPE sales in the future. On completion of an NPE trade, the Group's capital ratios would benefit from the RWA reduction, subject to regulatory approval.

Implications on capital from the Outbreak of COVID-19

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

The ECB's capital easing measures for COVID-19 will increase the Group's CET1 buffer by 131 bps following the frontloading of the new rules on the Pillar II Requirement composition, to allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET1, initially scheduled to come into effect in January 2021. The Total SREP capital requirement remains unchanged. In addition, the ECB allows banks to operate temporarily below the level of Pillar II Guidance, the capital conservation buffer (CCB) and the countercyclical buffer. It is noted that the countercyclical buffer is 0% for Cypriot banks.

In addition, in April 2020 the CBC decided to delay the phasing-in of the 1 January 2021 O-SII buffer (0.5% for the Bank) by 12 months. Consequently, the O-SII buffer will be fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Implications on capital from the Outbreak of COVID-19 (continued)

Following the COVID-19 outbreak and the resultant volatile market and economic environment, the Fair Value Reserve of the Fair Value through Other Comprehensive Income (FVOCI) debt security portfolio of the Group held as at 31 December 2019 has decreased by €39 mn on 24 April 2020. This change is recognised directly in equity i.e. through Other Comprehensive Income (OCI). Furthermore, on 24 April 2020, the Group held Cyprus sovereign debt securities of a nominal amount of €772 mn (compared to €477 mn on 31 December 2019), of which €350 mn is held at FVOCI portfolio and €422 mn is held at amortised cost portfolio. The increase since the year end is mainly due to the Group's participation on the issuance of 52-week treasury bills of the Cyprus Government in April 2020.

For further information please refer to Note 56 'Events after the reporting date' of the Consolidated Financial Statements for the year ended 31 December 2019.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.2 Regulations and Directives

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

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Member states are required to transpose the CRD V into national law. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities, MREL), but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of, among others, changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR).

B.2.2.2 Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD II came into effect and must be transposed into national law. 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.

The Bank has received formal notification from the Single Resolution Board (SRB), of its draft decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank, determined as the preferred resolution point of entry. The MREL requirement has been set at 28.36% of risk weighted assets as of 30 June 2019 and must be met by 31 December 2025. This MREL requirement would be equivalent to 18.54% of total liabilities and own funds (TLOF) as at 30 June 2019. The MREL requirement is in line with the Bank's expectations, and largely in line with its funding plans.

The MREL requirements remain subject to final confirmation by the SRB. This decision is based on the current legislation, it is expected to be updated annually and could be subject to subsequent changes by the resolution authorities, especially considering the developments of the BRRD and its transposition into the local legislation.

The MREL ratio of the Bank as at 31 December 2019, calculated according to SRB's eligibility criteria currently in effect and based on the Bank's internal estimate, stood at 18.54% of RWAs.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity

Funding

Funding from Central Banks

At 31 December 2019, the Bank had no funding from central banks. At 31 December 2018, the Bank's funding from central banks amounted to €830 mn, which related to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO II). In 3Q2019, the Bank decided to early repay the ECB funding of €830 mn, given its comfortable liquidity position.

Deposits

Customer deposits totalled €16,692 mn at 31 December 2019, compared to €16,473 mn at 30 September 2019 and €16,844 mn at 31 December 2018, remaining broadly flat yoy.

The Bank's deposit market share in Cyprus reached 35.1% as at 31 December 2019, compared to 34.6% as at 30 September 2019. Customer deposits accounted for 79% of total assets and 89% of total liabilities at 31 December 2019.

The net Loans to Deposit ratio (L/D) stood at 64% as at 31 December 2019, compared to 66% as at 30 September 2019 and 65% at 31 December 2018 pro forma for Helix. The L/D ratio had reached a peak of 151% as at 31 March 2014.

Subordinated Loan Stock

At 31 December 2019 the Bank's subordinated loan stock (including accrued interest) amounted to €272 mn (compared to €268 mn at 30 September 2019 and €271 mn as at 31 December 2018) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 mn, issued by the Bank in January 2017.

Liquidity

At 31 December 2019 the Group Liquidity Coverage Ratio (LCR) stood at 208% (compared to 218% at 30 September 2019 and 231% at 31 December 2018) and was in compliance with the minimum regulatory requirement of 100%.

The liquidity surplus at 31 December 2019 amounted to €3.2 bn, compared to €3.0 bn at 30 September 2019, €3.8 bn at 30 June 2019, €2.7 bn at 31 March 2019 and €3.1 bn at 31 December 2018. The increase in 2Q2019 reflects a €1.2 bn increase in liquidity on completion of Helix. The decrease in 3Q2019 reflects the repayment of ECB funding (TLTRO) amounting to €830 mn.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will become a regulatory indicator when CRR II is enforced, with the limit set at 100%. At 31 December 2019, the Group's NSFR, on the basis of Basel III standards, stood at 127% (compared to 122% at 30 September 2019 and 119% at 31 December 2018).

Implications on liquidity from the Outbreak of COVID-19

Resulting from the outbreak of COVID-19, the ECB has announced a positive package of measures including that the ECB will allow banks to temporarily operate below the LCR minimum requirement. In addition, the ECB decided on additional longer-term refinancing operations (LTROs) through a full-spread fixed-rate auction equal to the average deposit facility interest rate. Similarly, the ECB announced that for the TLTRO III operation in June 2020, considerably more favourable terms will be applied during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time.

The Governing Council of the ECB on 18 March 2020 decided to launch a new Pandemic Emergency Purchase Programme (PEPP) for an amount of €750 bn and purchases will be conducted until the end of 2020. Furthermore, it was decided to expand the range of eligible assets under the Corporate Sector Purchase Programme (CSPP) to non-financial commercial paper and to ease the collateral standards by adjusting the main risk parameters of the collateral framework.

For further information please refer to Note 56 'Events after the reporting date' of the Consolidated Financial Statements for the year ended 31 December 2019.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loans

Group gross loans totalled €12,822 mn at 31 December 2019, compared to €13,035 mn at 30 September 2019 and €15,900 mn at 31 December 2018 (when ignoring the classification of the Helix loan portfolio as a disposal group held for sale). Pro forma for Helix, gross loans totalled €13,148 mn at 31 December 2018. Gross loans in Cyprus totalled €12,736 mn at 31 December 2019, accounting for 99% of Group gross loans, compared to €15,702 mn at 31 December 2018 (when ignoring the classification of the Helix loan portfolio as a disposal group held for sale), accounting for 99% of Group gross loans.

The reduction in gross loans by 19% since 31 December 2018 is attributed mainly to the completion of Project Helix (sale of €2.8 bn of gross loans of which €2.7 bn related to non-performing loans) and to a lesser extent to the completion of Project Velocity (sale of €30 mn gross loans as at the date of disposal, relating wholly to non-performing loans) in 2Q2019.

New loans granted in Cyprus reached €443 mn for 4Q2019, compared to €491 mn for 3Q2019 (down 10% qoq). New loans granted in Cyprus reached €2,045 mn for FY2019, compared to €1,870 mn for FY2018 (up 9% yoy), and reached the highest level of new lending in Cyprus since FY2015.

At 31 December 2019, the Group net loans and advances to customers totalled €10,722 mn (compared to €10,971 mn at 30 September 2019 and €10,922 mn at 31 December 2018).

At 31 December 2018, net loans and advances to customers of €1,154 mn were classified as a disposal group held for sale in line with IFRS 5, related to Project Helix (€1,148 mn) and Velocity 1 (€6 mn).

The Bank is the single largest credit provider in Cyprus with a market share of 41.1% at 31 December 2019, compared to 40.8% at 30 September 2019, 41.3% at 30 June 2019, 46.7% at 31 March 2019 and 45.4% at 31 December 2018, with the reduction in 2Q2019 reflecting the derecognition of the Helix portfolio on completion.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality

Tackling the Group's loan portfolio quality remains the top priority for management. The Group has continued to make steady progress across all asset quality metrics and the loan restructuring activity has continued. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio.

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €205 mn or 5% during 4Q2019, bringing the total organic reduction in NPEs for FY2019 to €889 mn, ahead of the target for organic NPE reduction of c.€800 mn for 2019. The Group has recorded organic NPE reductions for nineteen consecutive quarters.

The NPEs at 31 December 2019 amounted to €3,880 mn, compared to €4,085 mn at 30 September 2019 and €7,419 mn at 31 December 2018, **reflecting a reduction of 48% yoy, driven mainly by the completion of Project Helix.**

The NPEs account for 30% of gross loans as at 31 December 2019, compared to 47% at 31 December 2018 (when ignoring the classification of the Helix and Velocity 1 portfolios as disposal groups held for sale), an improvement of 17 p.p. yoy. Pro forma for Helix (and Velocity 1), the NPEs accounted for 36% of gross loans at 31 December 2018.

The NPE coverage ratio improved to 54% at 31 December 2019, compared to 52% at 31 December 2018 (when ignoring the classification of the Helix and Velocity 1 portfolios as disposal groups held for sale), an improvement of 2 p.p. yoy. Pro forma for Helix (and Velocity 1), the NPE coverage ratio stood at 47% at 31 December 2018.

When taking into account tangible collateral at fair value, NPEs are fully covered.

	31.12.2019		30.09.2019	
	€ mn	**% gross loans**	€ mn	% gross loans
NPEs as per EBA definition	**3,880**	**30.3%**	4,085	31.3%
Of which, in pipeline to exit: -NPEs with forbearance measures, no arrears[1]	**428**	**3.3%**	530	4.1%

1. The analysis is performed on a customer basis.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Project Helix

In June 2019, the Group announced the completion of Project Helix, that refers to the sale of a portfolio of loans with a gross book value of €2.8 bn (of which €2.7 bn related to non-performing loans) secured by real estate collateral to certain funds affiliated with Apollo Global Management LLC, the agreement for which was announced on 28 August 2018.

Upon completion of Project Helix, the Group's gross NPEs were c.70% lower than its peak in 2014. Project Helix reduced the NPE ratio by c.11 p.p. to 33% as at 30 June 2019.

Cash consideration of c.€1.2 bn was received on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Helix portfolio since the reference date of 31 March 2018.

The participation of the Bank in the senior debt in relation to financing the transaction was syndicated down from the initial level of €450 mn to c.€45 mn, representing c.4% of the total acquisition funding.

ESTIA

In July 2018 the **Government announced a scheme aimed at addressing NPEs backed by primary residence**, known as ESTIA (the 'Scheme'). The ESTIA eligible portfolio of c.€0.8 bn of retail core NPEs as at 31 December 2019, referred to the potentially eligible portfolio following on-going detailed assessment based on the Bank's available data on Open Market Value (OMV) and NPE status. Eligibility criteria related primarily to the OMV of the residence, total income and net wealth of the household. These act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of the contractual balance and the OMV. The Government subsidises one third of the instalment of the restructured loan, subject to the borrowers servicing their restructured loans.

In July 2019 the Memorandum of Understanding was signed by the institutions and the Government for participation in the Scheme, which was officially launched in September 2019. According to the updated timeline provided by the Government in November 2019, application submissions continued until the end of the year. The participating institutions evaluate the applications and offer restructuring solutions, whilst at the same time, the applications are being reviewed and approved by the Government.

The Scheme is expected to resolve part of the ESTIA-eligible portfolio (€41 mn as at 10 April 2020), to identify non-viable customers for which alternative restructuring solutions are being considered, including by the Government (€30 mn as at 10 April 2020), and to facilitate the resolution of the remaining customers (€745 mn as at 10 April 2020), mainly by focusing on realising collateral through consensual and non-consensual foreclosures.

Over 80% of the applications submitted by 31 December 2019 currently remain incomplete. Following the outbreak of COVID-19, the deadline for borrowers to complete their application has been extended by three months to June 2020.

Project Velocity 1

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

Project Velocity 2

In January 2020, the Bank entered into an agreement with B2Kapital Cyprus Ltd, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €398 mn and gross book value of €144 mn as at the reference date of 31 August 2019, **known as Project Velocity 2.** This portfolio comprises of c.10.000 borrowers, including c.8.400 private individuals and c.1.600 small-to-medium-sized enterprises. As at 31 December 2019, the portfolio is classified as a disposal group held for sale as at 31 December 2019, with a gross book value of €139 mn. The transaction resulted in a reversal of impairment of €6 mn recorded in 4Q2019, under 'Provisions/net loss relating to NPE sales' in the underlying basis income statement and is expected to be capital neutral on completion. The sale is subject to the necessary approvals and is expected to be completed within 2Q2020.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Additional strategies to accelerate de-risking

The Group continues to assess the potential to accelerate the decrease in NPEs on its balance sheet through additional sales of NPEs in the future. To that extent the Group continues to review the feasibility of NPE reduction structures with the aim of identifying the option that best meets the Group's strategic objectives. The preparation phase involves defining the relevant NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and in order to conclude on the best possible structure, the Group has engaged international advisors, and is continuing to engage in discussions with various third parties, including financial investors and investment banks, that may be interested in pursuing a possible collaboration with the Group. A range of potential outcomes is possible, including outright sales (including the Bank retaining a portion of the related financing). The Group is not committed to any outcome arising from these third party discussions.

Against the backdrop of market volatility arising out of the COVID-19 pandemic, the Group continues to work with its advisers towards the sale of a portfolio of NPEs in the future. Due to prevailing market and operational conditions, this process is likely to take longer than originally anticipated. In the context of IFRS 9, the Bank recognised additional loan credit losses of €75 mn in 4Q2019, with a negative capital impact of 46 bps, as a result of the anticipated balance sheet de-risking through further NPE sales in the future. On completion of an NPE trade, the Group's capital ratios would benefit from the RWA reduction, subject to regulatory approval.

As at 31 December 2019, a portfolio of credit facilities related to Helix with gross book value of €46 mn, of mainly secured non-performing exposures (known as '**Helix Tail**') was classified as a disposal group held for sale.

Following the outbreak of COVID-19, the Group is now focused on arresting any potential asset quality deterioration. Once economic conditions normalise, the Group expects to resume its efforts to improve its asset quality position by seeking solutions, both organic and inorganic, to make the Bank a stronger and safer institution, capable of continuing to support the local economy.

For further information regarding the regulatory forbearance as allowed by the Guidelines issued in April 2020 by the EBA, please refer to Note 56 'Events after the reporting date' of the Consolidated Financial Statements for the year ended 31 December 2019.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.6 Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** on-boarded €196 mn of assets in FY2019 (down by 54% yoy), via the execution of debt for asset swaps and repossessed properties. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed organic disposals of €207 mn in FY2019 (compared to €196 mn in FY2018), resulting in a profit on disposal of €32 mn for FY2019.

During the year ended 31 December 2019, the Group executed sale-purchase agreements (SPAs) with contract value of €345 mn (558 properties), in addition to the sale of the Cyreit (see below). In addition, the Group had signed SPAs for disposals of assets with contract value of €36 mn as at 31 December 2019, compared to €106 mn as at 31 December 2018.

Completion of sale of Cyreit

In November 2018, the Bank signed an agreement for the disposal of its entire holding in the investment shares of the Cyreit Variable Capital Investment Company PLC (Cyreit). During 2Q2019, the Group completed the sale of the Cyreit (21 properties), recognising a loss on disposal of c.€1 mn. The total proceeds from the disposal of Cyreit were €160 mn.

Completion of Project Helix

With the completion of Project Helix in 2Q2019, properties with a carrying value of €109 mn, which were included in the portfolio for the NPE sale (Helix), were derecognised as of 30 June 2019. As at 31 March 2019, properties with carrying value of €98 mn were included in the portfolio for the NPE sale (Helix), compared to €74 mn as at 31 December 2018, due to adjustments made to the portfolio of assets.

Change in classification of properties which are leased out under operating leases

In 2Q2019, the Group decided to classify certain leased properties acquired in exchange of debt and leased out under operating leases as 'Investment Properties' instead of 'Stock of property'. This change was applied retrospectively, resulting in the restatement of comparatives.

As a result of the above change in classification, properties with carrying value of €103 mn as at 31 December 2018 were reclassified from the stock of properties (measured at the lower of cost and net realisable value under IAS 2) to investment properties (measured at fair value under IAS 40). These properties continue to be managed by REMU. The carrying value of such properties as at 30 June 2019 was €118 mn.

This change in classification had no material impact on the Group's comparative retained earnings and a cumulative impact of €1 mn gain was recognised in the Group's income statement under 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' in 2Q2019.

Assets held by REMU

As at 31 December 2019, assets held by REMU had a carrying value of €1,490 mn (comprising properties of €1,378 mn classified as 'Stock of property' and €112 mn as 'Investment Properties'), compared to €1,530 mn as at 31 December 2018 (comprising properties of €1,427 mn classified as 'Stock of property' and €103 mn as 'Investment Properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €24 mn as at 31 December 2019 and as at 31 December 2018, relate to legacy properties held by the Bank before the set-up of REMU in January 2016.

Assets held by REMU (Group) **€ mn**	**FY2019**	**FY2018**	**4Q2019**	**3Q2019**	qoq ±%	yoy ±%
Opening balance	**1,530**	1,641	**1,513**	1,548	-2%	-7%
On-boarded assets (including construction cost)	**196**	428	**37**	33	12%	-54%
Sales	**(207)**	(196)	**(48)**	(67)	-28%	5%
Transfer to investment properties (Cyreit)	**-**	(166)	**-**	-	-	-
Impairment loss	**(24)**	(17)	**(12)**	(2)	-	41%
Transfer to non-current assets and disposal groups held for sale	**(5)**	(162)	**-**	1	-	-97%
Foreign exchange and other movements	**-**	2	**-**	-	-	-
Closing balance	**1,490**	1,530	**1,490**	1,513	-2%	-3%

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

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

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

31 December 2018 (€ mn)	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	164	25	0	189
Offices and other commercial properties	228	44	7	279
Manufacturing and industrial properties	80	38	0	118
Hotels	35	0	-	35
Land (fields and plots)	616	8	4	628
Golf courses and golf-related property	280	-	-	280
Properties under construction	1	-	-	1
Total	1,404	115	11	1,530

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.7 Non-core overseas exposures

The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 31 December 2019 are as follows:

€ mn	31 December 2019	31 December 2018
Greece	**139**	164
Romania	**25**	35
Serbia	**0**	7
Russia	**19**	23
UK	**0**	11
Total	**183**	240

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

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated in January 2019, following the completion of deregistration formalities with respective authorities.

During 3Q2019 the disposal of the overseas exposure in Serbia, comprising loans and properties, with a carrying value of €8 mn was completed.

In addition to the above, as at 31 December 2019, there were overseas exposures of €265 mn in Greece, relating to both loans and properties (compared to €279 mn at 30 September 2019 and €144 mn at 31 December 2018), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	FY2019[1]	FY2018[1,2]	4Q2019[1]	3Q2019[1]	2Q2019[1]	1Q2019[1]	(4q vs 3q) ±%	(FY) Yoy ±%
Net interest income	**344**	**331**	**84**	**90**	**85**	**85**	-7%	4%
Net fee and commission income	150	162	39	36	38	37	5%	-8%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	38	67	4	8	16	10	-50%	-43%
Insurance income net of claims and commissions	58	53	16	12	18	12	36%	9%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	32	18	6	10	12	4	-30%	73%
Other income	29	26	7	6	8	8	22%	13%
Non-interest income	**307**	**326**	**72**	**72**	**92**	**71**	1%	-6%
Total income	**651**	**657**	**156**	**162**	**177**	**156**	-4%	-1%
Net Interest Margin (annualised)[1,2]	1.90%	1.82%	1.87%	1.99%	1.89%	1.88%	-12 bps	+8 bps
Average interest earning assets (€ mn)[1,2]	18,051	18,190	17,721	17,962	18,149	18,243	-1%	-1%

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net (loss)/profit relating to NPE sales' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability.

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

Net interest income (NII) and net interest margin (NIM) for FY2019 amounted to €344 mn (up 4% yoy) and 1.90% respectively (up by 8 bps yoy). NII for 4Q2019 amounted to €84 mn (compared to €90 mn for 3Q2019), reduced by 7% qoq, mainly due to increased interest cash collections not previously recognised in 3Q2019. In addition, in 4Q2019 the NII continued to be negatively affected by the continued pressure on lending rates and positively affected by the reduction of cost of deposits. The NIM for 4Q2019 stood at 1.87% decreased by 12 bps qoq, resulting mainly from the decrease in net interest income.

An amount of c.€12 mn relating to a one - off charge included in 'Net interest income' under the statutory basis, is presented within 'Loan credit losses' under the underlying basis, which is related to a change in the method of amortising arrangement fees given that this was a non-recurring item.

Reclassifications to comparative information were made for unrecognised interest on previously credit impaired loans which cured during the year ended 31 December 2018, amounting to €33 mn. This was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC discussion, which took place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).

Average interest earning assets for FY2019 amounted to €18,051 mn, compared to €18,190 mn for FY2018, down by 1% yoy. Quarterly average interest earning assets for 4Q2019 amounted to €17,721 mn compared to €17,962 mn for 3Q2019, down by 1% qoq, primarily due to the reduction of liquid assets following repayment of ECB funding (TLTRO) in September 2019, as well as to the reduction in net loans.

Non-interest income for FY2019 amounted to €307 mn, down by 6% yoy, comprising net fee and commission income of €150 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €38 mn, net insurance income of €58 mn, net gains from revaluation and disposal of investment properties and on disposal of stock of properties of €32 mn and other income of €29 mn. Non-interest income for 4Q2019 amounted to €72 mn, broadly flat qoq.

Net fee and commission income for FY2019 amounted to €150 mn, decreased by 8% yoy (€162 mn for FY2018), mainly due to the decreased volume of business from the International Business Units (IBUs) in 2019. Net fee and commission income for 4Q2019 amounted to €39 mn, up by 5% qoq.

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 on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €38 mn for FY2019, comprising net foreign exchange gains of €27 mn and net gains on revaluation of financial instruments of €11 mn, decreased by 43% yoy mainly due to one-off gain on disposal of bonds during 1Q2018 amounting to €19 mn. Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates totalled €4 mn for 4Q2019, compared to €8 mn for 3Q2019, down by 50% qoq. The decrease qoq is mainly driven by lower net foreign exchange gains and lower revaluation gains of financial instruments.

Net insurance income amounted to €58 mn for FY2019, compared to €53 mn for FY2018, up by 9% yoy, reflecting increased income and positive investment returns in FY2019. Net insurance income amounted to €16 mn for 4Q2019, compared to €12 mn for 3Q2019, up by 36% qoq, primarily due to the change in the valuation rate and the positive effect from lower insurance claims (c.€5 mn).

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for FY2019 amounted to €32 mn (compared to net gains of €18 mn for FY2018), comprising a net profit from the disposal of stock of properties of €30 mn (REMU gains) and profit from disposal of investment property of €2 mn. Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 4Q2019 amounted to €6 mn compared to €10 mn in the previous quarter. REMU profit remains volatile.

Total income for FY2019 amounted to €651 mn, at similar levels to the previous year. Total income for 4Q2019 amounted to €156 mn, compared to €162 mn in 3Q2019, down by 4% qoq.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	FY2019[1]	FY2018[1,2]	4Q2019[1]	3Q2019[1]	2Q2019[1]	1Q2019[1]	(4q vs 3q) ±%	(FY) Yoy ±%
Staff costs	(220)	(212)	(53)	(55)	(56)	(56)	0%	4%
Other operating expenses	(165)	(156)	(43)	(38)	(43)	(41)	15%	6%
Total operating expenses	**(385)**	**(368)**	**(96)**	**(93)**	**(99)**	**(97)**	6%	5%
Special levy and contribution to Single Resolution Fund	(25)	(25)	(7)	(6)	(6)	(6)	-2%	-1%
Total expenses	**(410)**	**(393)**	**(103)**	**(99)**	**(105)**	**(103)**	5%	4%
Cost to income ratio[1]	63%	60%	67%	61%	59%	66%	+6 p.p.	+3 p.p.
Cost to income ratio excluding special levy and contribution to Single Resolution Fund[1]	59%	56%	63%	57%	56%	62%	+6 p.p.	+3 p.p.

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net (loss)/profit relating to NPE sales' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability.

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

Total expenses for FY2019 were €410 mn (compared to €393 mn for FY2018), 54% of which related to staff costs (€220 mn), 40% to other operating expenses (€165 mn) and 6% (€25 mn) to special levy and contribution to Single Resolution Fund (SRF). Total expenses for 4Q2019 were €103 mn, compared to €99 mn in 3Q2019 (up by 5% qoq).

Total operating expenses for FY2019 were €385 mn, increased by 5% yoy, compared to €368 mn for FY2018. Total operating expenses for 4Q2019 were €96 mn, increased by 6% qoq, compared to €93 mn in 3Q2019.

Staff costs of €220 mn for FY2019 increased by 4% yoy (compared to €212 mn in FY2018) mainly driven by the increase in employer's social insurance contributions from the beginning of the year and the additional contributions to the new general healthcare system which commenced in March 2019, as well as the effect of the renewal of the annual collective agreement for 2019 with the employees' union. Staff costs for 4Q2019 amounted to €53 mn, at similar levels as the previous quarter.

In October 2019, the Group completed a voluntary staff exit plan (VEP), through which c.11% of the Group's full-time employees were approved to leave at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019. Following the completion of the VEP, the gross annual savings are estimated at c.€28 mn or c.13% of staff costs (excluding the c.100 persons relating to the Helix transaction). The annual savings net of the impact from the renewal of the collective agreement for 2019 and 2020, are estimated at €23 mn or 11% of staff costs.

The Group employed 3,672 persons as at 31 December 2019 (compared to 4,134 as at 30 September 2019 and 4,146 persons as at 31 December 2018), including c.100 persons relating to the Helix transaction who were transferred to the buyer upon full migration in January 2020. The staff costs related to these persons are included under 'Provisions/net (loss)/profit relating to NPE sales' in the underlying basis.

Other operating expenses for FY2019 were €165 mn, increased by 6% yoy, mainly due to higher property related costs and higher depreciation / amortisation, resulting from increased capital expenditure, following the Digital Transformation Programme. Other operating expenses for 4Q2019 were €43 mn, compared to €38 mn for 3Q2019 (up by 15% qoq), mainly due to seasonality and lower marketing expenses in 3Q2019, and at similar levels to the previous quarters.

Special levy and contribution to Single Resolution Fund (SRF) for FY2019 were €25 mn (at the same level as the previous year) and comprise the special levy on deposits of credit institutions in Cyprus and the contribution made to the SRF. Special levy and contribution to the SRF for 4Q2019 were €7 mn, compared to €6 mn for 3Q2019.

As from 1 January 2020 and until 3 July 2024 the Bank is subject to contribution to the Deposit Guarantee Fund (DGF) on a semi-annual basis. The contributions are calculated based on the Risk Based Methodology (RBM) as approved by the management committee of the Deposit Guarantee and Resolution of Credit and Other Institutions Schemes (DGS) and is publicly available on the CBC's website. In line with the RBM, the contributions are broadly calculated on the covered deposits of all authorised institutions and the target level is to reach at 0.8% of these deposits by 3 July 2024. The contribution of the Bank has been set at €2.9 mn for the first half of 2020 and in line with IFRSs, it will be charged in 1Q2020.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses (continued)

The **cost to income ratio excluding special levy and contribution to Single Resolution Fund** for 4Q2019 was 63%, compared to 57% for 3Q2019, principally reflecting the reduction in interest income and increase in operating expenses in 4Q2019. The cost to income ratio excluding special levy and contribution to Single Resolution Fund for FY2019 was 59%, compared to 56% for FY2018, mainly due to the increase in total operating expenses which increased by 5% yoy. Cost management remains a key focus going forward.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 Profit before tax and non-recurring items

€ mn	FY2019[1]	FY2018[1,2]	4Q2019[1]	3Q2019[1]	2Q2019[1]	1Q2019[1]	(4q vs 3q) ±%	(FY) Yoy ±%
Operating profit	241	264	53	63	72	53	-17%	-9%
Loan credit losses	(146)	(135)	(29)	(30)	(40)	(47)	-3%	8%
(Impairments)/reversal of impairments of other financial and non-financial assets	(22)	(20)	(13)	1	(9)	(1)	-	12%
(Provisions)/reversal of provisions for litigation, claims, regulatory and other matters	(10)	(23)	(7)	(6)	3	(0)	19%	-54%
Total loan credit losses, impairments and provisions	**(178)**	**(178)**	**(49)**	**(35)**	**(46)**	**(48)**	41%	0%
Profit before tax and non-recurring items	**63**	**86**	**4**	**28**	**26**	**5**	-88%	-28%
Cost of risk[1,2]	**1.12%**	**0.99%**	**0.89%**	**0.90%**	**1.23%**	**1.44%**	-1 bps	+13 bps

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net (loss)/profit relating to NPE sales' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability.

Operating profit for FY2019 was €241 mn, compared to €264 mn for FY2018, down by 9% yoy, mainly due to the increase in total operating expenses.

The **loan credit losses** for FY2019 totalled €146 mn (compared to €135 mn for FY2018, up by 8% yoy), reflecting further balance sheet de-risking. The loan credit losses for 4Q2019 amounted to €29 mn, broadly flat qoq. An amount of c.€12 mn relating to a one - off charge included in 'Net interest income' under the statutory basis, is presented within 'Loan credit losses' under the underlying basis, which is related to a change in the method of amortising arrangement fees given that this was a non-recurring item.

The loan credit losses charge (**cost of risk**) for FY2019 accounted for 1.12% of gross loans, compared to a loan credit losses charge (cost of risk) of 0.99% for FY2018 on the same basis, reflecting further de-risking and IFRS 9 model volatility. The annualised loan credit losses charge (cost of risk) for 4Q2019 accounted for 0.89% of gross loans, compared to an annualised loan credit losses charge for 3Q2019 of 0.90%, on the same basis.

At 31 December 2019, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €2,096 mn (compared to €2,086 mn at 30 September 2019 and €2,254 mn at 31 December 2018 pro forma for Helix) and accounted for 16.3% of gross loans (compared to 16.0% at 30 September 2019 and 17.1% at 31 December 2018 pro forma for Helix).

Impairments of other financial and non-financial assets for FY2019 amounted to €22 mn, compared to €20 mn for FY2018 (up by 12%). Impairments of other financial and non-financial assets for 4Q2019 amounted to €13 mn, mainly relating to impairments of legacy properties held in Cyprus, Greece and Romania, compared to a reversal of impairments of other financial and non-financial assets for 3Q2019 of €1 mn, mainly relating to a reversal of impairment of financial instruments driven by reduction of certain exposures.

Provisions for litigation, claims, regulatory and other matters for FY2019 totalled €10 mn, compared to €23 mn for FY2018. Provisions for litigation, claims, regulatory and other matters for 4Q2019 totalled €7 mn, compared to €6 mn for 3Q2019.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

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

€ mn	FY2019[1]	FY2018[1,2]	4Q2019[1]	3Q2019[1]	2Q2019[1]	1Q2019[1]	(4q vs 3q) +%	(FY) Yoy +%
Profit before tax and non-recurring items	**63**	**86**	4	**28**	**26**	**5**	-88%	-28%
Tax	(3)	3	(2)	(1)	2	(2)	167%	-
(Profit)/loss attributable to non-controlling interests	(2)	(1)	0	0	(2)	(0)	5%	71%
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**58**	**88**	**2**	**27**	**26**	**3**	-95%	-35%
Advisory and other restructuring costs – organic	(22)	(42)	(8)	(4)	(4)	(6)	63%	-49%
Profit/(loss) after tax – organic (attributable to the owners of the Company)	**36**	**46**	**(6)**	**23**	**22**	**(3)**	-	-22%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(81)	-	(81)	-	-	-	-	-
Provisions/net (loss)/profit relating to NPE sales[3]	(92)	(83)	(86)	(4)	3	(5)	-	12%
(Loss)/profit on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	(21)	9	0	0	(23)	2	-	-
Reversal of impairment of DTA and impairment of other tax receivables	88	(79)	(13)	-	-	101	-	-
Profit from discontinued operations (UK)	-	3	-	-	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(70)**	**(104)**	**(186)**	**19**	**2**	**95**	-	-32%

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net (loss)/profit relating to NPE sales' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability. 3. 'Provisions/net (loss)/profit relating to NPE sales' refer to the net loss on transactions completed during FY2019, net loan credit losses on transactions under consideration at 31 December 2019, as well as the restructuring costs relating to these trades. For further details please see analysis below.

The **tax charge** for FY2019 is €3 mn, compared to a tax credit of €3 mn a year earlier (which comprised mainly of reversals of provisions relating to prior years). The tax charge for 4Q2019 amounted to €2 mn compared to €1 mn in 3Q2019.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for FY2019 was €58 mn, compared to €88 mn for FY2018, down by 35% yoy. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 4Q2019 was €2 mn, compared to €27 mn for 3Q2019.

Advisory and other restructuring costs - organic for FY2019 amounted to €22 mn, compared to €42 mn for FY2018, down by 49% yoy, due to elevated costs in 2018 mainly due to an amount of €11 mn relating to fee and commission expense on the amounts deposited in regards to the AT1 issue and also due to lower advisory costs in FY2019. Advisory and other restructuring costs - organic for 4Q2019 amounted to €8 mn, compared to €4 mn for 3Q2019, up by 63% qoq.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for FY2019 amounted to €36 mn, compared to €46 mn for FY2018, down by 22% yoy. Loss after tax arising from the organic operations (attributable to the owners of the Company) for 4Q2019 amounted to €6 mn, compared to a profit of €23 mn for 3Q2019.

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) amounted to €81 mn for the 4Q2019 and the FY2019. For further details please refer to Section B.3.2 'Total expenses'.

Provisions/net loss relating to NPE sales for 4Q2019 amounts to €86 mn (compared to €4 mn for 3Q2019) and includes the net result of the sale of the Helix portfolio (including the interest income, non-interest income, staff costs, other operating expenses and loan credit losses) of a loss of €6 mn, as well as a reversal of impairment of €6 mn resulting from the sale of the Velocity 2 portfolio. Also, additional loan credit losses within the context of IFRS 9 of €75 mn were recorded in 4Q2019 as a result of the anticipated balance sheet de-risking through further NPE sales in the future. Restructuring costs related to these projects totalling €10 mn for 4Q2019 (compared to €6 mn for 3Q2019) are also included.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

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

Provisions/net loss relating to NPE sales for FY2019 amounts to €92 mn (compared to €83 mn for FY2018) and includes the net result of the sale of the Helix portfolio (including the interest income, non-interest income, staff costs, other operating expenses and loan credit losses) of a profit of €4 mn, as well as a reversal of impairment of €6 mn resulting from the sale of the Velocity 2 portfolio. Also, additional loan credit losses of €75 mn as a result of the anticipated balance sheet de-risking through further NPE sales in the future were also recorded, as well as restructuring costs related to these projects totalling €25 mn for FY2019 (compared to €18 mn for FY2018).

Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates totalled €21 mn for FY2019, comprising a loss on remeasurement of investment in associate upon classification as held for sale of €26 mn and a share of profit from associates of €5 mn (compared to a share of profit from associates of €9 mn in FY2018). In October 2019, the Group completed the sale of its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited (CNP) that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013, for a cash consideration of €97.5 mn.

The **reversal of impairment of DTA and impairment of other tax receivables** totalled €88 mn for FY2019, comprising the net positive impact of €96 mn following amendments to the Income Tax legislation in Cyprus adopted in March 2019, and an impairment of €8 mn relating to Greek tax receivables adversely impacted from legislative changes. The carrying value of the remaining receivable as at 31 December 2019 was c.€5 mn. The **impairment of DTA** for FY2018 was €79 mn, resulting from the on-going review of the recoverability of the deferred tax asset (DTA). This amount together with related impairments recorded in prior periods totalled €115 mn and were subsequently reversed in 1Q2019. In addition, levy in the form of a guarantee fee of €19 mn was recorded in FY2019 in relation to the right to convert tax losses into a tax credit. For further information, please refer to Section B.2.1. Capital Base, 'Legislative amendments for the conversion of DTA to DTC'.

Profit from discontinued operations for FY2018 amounted to €3 mn and relate to the UK operations sold during 2018.

Loss after tax attributable to the owners of the Company for FY2019 was €70 mn, compared to a loss of €104 mn for FY2018. Loss after tax attributable to the owners of the Company for 4Q2019 was €186 mn, compared to a profit of €19 mn for 3Q2019.

C. Operating Environment

Impact of COVID-19

While Cyprus has had a five-year track record of strong economic recovery in 2015-2019, the COVID-19 pandemic is expected to lead to a deep recession in 2020 before recovery can take shape in 2021. The pandemic has also altered the global economic outlook where earlier favourable forecasts are now being replaced by the prospect of a global recession which may be relatively deep for some countries. The recovery will depend on the speed and effectiveness of policy responses by the fiscal and monetary authorities at both the national and international levels, and on success in containing the virus.

What started as a massive supply shock in China is now morphing into a global demand shock after governments around the world have imposed quarantines and social distancing to contain the spread of the virus. Governments and central banks are acting proactively and decisively to support consumers and businesses and to limit financial disruptions. The pandemic is having, and will continue to have, an impact on consumer spending, which is the primary driver of economic growth in most parts of the world. The pandemic is also expected to affect corporate profits causing businesses to cut back further on investment and ultimately to affect the ability of companies to repay their debts. Primary credit markets are essentially frozen, which means that some companies will not be able to roll-over liabilities without increasing their refinancing costs.

The Cypriot economy is also expected to be affected by a protracted lockdown. The economy is heavily export-oriented and thus highly exposed to developments in the European and global economies. Tourism, trade, transport and construction that are most severely being affected by the lockdowns account for about one third of GDP. The prevalence of small and medium-sized enterprises makes the Cypriot economy even more vulnerable to supply disruptions and demand shocks.

Central banks around the world, including the US Federal Reserve and the ECB, are focusing their efforts on providing liquidity and reducing pressures on corporate balance sheets amid declining profitability. Also, changes to national fiscal policies are even more critical in the short term at least, to offset falling demand and losses of income. Countries are also offering lending and credit guarantees for businesses along with temporary tax relief and payments to consumers to prevent or mitigate layoffs.

In the US the Federal Reserve has already cut its interest rate to zero and announced it was providing an additional $700 bn in asset purchases, expanding repurchase operations and extending US dollar swap lines with foreign banks. The US Senate has agreed to an emergency fiscal package of $2 trillion or just under 10% of GDP to support companies, consumers and state and local governments.

In the European Union, the European Commission announced a suspension of fiscal and state aid rules paving the way for member states to incur deficits without repercussions. The ECB has launched a new wave of net asset purchases with an initial envelope of €120 bn, followed by a €750 bn Pandemic Emergency Purchase Programme (PEPP). It also provided more favourable terms under its refinancing operations and relaxed collateral standards for accessing central bank liquidity. The ECB's supervisory authority eased capital requirements, providing relief to banks and relaxed its rules around non-performing loans. The PEPP is, in addition to the €20 bn-per month-programme launched in November 2019, as well as the €120 bn-package, bringing the total to more than €1 trillion for at least the rest of 2020. This means that monthly purchases will exceed the €80 bn spent at the height of the eurozone debt crisis. The PEPP, with its flexible framework, paves the way for extensive bond-buying this year ensuring funding conditions will remain very favourable for countries facing a deterioration in their public finances.

At their meeting on 9 April 2020, the Eurogroup emerged with a deal on a €540 bn rescue package. This included the use of the European Stability Mechanism (ESM) for €240 bn, which is c.2% of Eurozone GDP. The only conditionality is that this is required to fund the direct and indirect health care, cure and prevention costs of the COVID-19 crisis. The Eurogroup endorsed the European Commission's €100 bn SURE initiative to support national short-term work schemes. Support will also be provided through the European Investment Bank (EIB) for €200 bn of loan guarantees with a focus on small and medium-sized enterprises. This fiscal stimulus adds to the enormous amount of stimulus in place to fight the COVID-19 outbreak and its consequences.

In response to the outbreak of COVID-19, the Cyprus Government swiftly implemented restrictions, partially or fully freezing the operations of entire business sectors to contain the spread of the virus. To mitigate the disruption and the costs of the outbreak of COVID-19 and of the measures to contain it, the Government has introduced several measures and policies. The measures are intended to provide liquidity to companies and households and prevent a sharp rise in unemployment. The Government is promoting a government guarantee programme of €2 bn for the provision of low-priced loans to companies and the self-employed. Parliament voted for the suspension of loan repayments for interest and principal for the nine months remaining to the end of the year, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Based on a decision of the Association of Cyprus Banks, whilst interest will continue to accrue for this nine-month period, it will not be compounded. Banks suspended foreclosure procedures for a period of three months until 18 June 2020. The Government also introduced income support schemes for companies to avoid employee layoffs. The Government introduced other liquidity supporting measures such as the temporary suspension of VAT and delayed additional increases of contributions for the national health system.

C. Operating Environment (continued)

Impact of COVID-19 (continued)

In an effort to strengthen the liquidity of its finances at a time of uncertainty surrounding the pandemic crisis, and help fund a large expected budget deficit in 2020, the Government proceeded and successfully completed in April 2020, a double issuance of a 7-year bond for €1.25 bn and a 30-year bond for €0.5 bn. The issuance was oversubscribed, and the final yields were 1.55% and 2.34% respectively. Furthermore, the Government proceeded and successfully completed in April 2020 the issuance of 52-week treasury bills for €1.25 bn, bringing the total amount of finance raised from the international and local markets to €3.0 bn.

2019 macroeconomic performance

In 2019 real GDP increased by 3.2%, following an increase of 4.1% in 2018. From the supply side all sectors made positive contributions in overall growth in the year except for financial services. Construction, manufacturing, trade and tourism from the traditional economy made significant contributions. Information and communications, together with the professional services from the higher value-added growth sectors, also added significantly to total growth. At the same time, there were positive contributions from public services, education, health and real estate.

Total employment increased by 3.9% on average in 2019 compared with an increase of 5.9% in 2018. The unemployment rate dropped to 7.1% from a yearly average of 8.4% the year before. Consumer price inflation moderated in 2019 to 0.3% following an increase of 1.4% in 2018 (Labour Force survey, Cyprus Statistical Service). This was driven by weaker global energy prices, continued economic slack in the domestic economy and a one-off adjustment to fuel retail prices after a cut in taxes. The current account deficit deteriorated sharply in 2019 rising to 6.6% of GDP from 3.4% of GDP in 2018 excluding special purpose entities (Central Bank of Cyprus). This was due to strong domestic demand driving imports higher, and weaker export growth.

In the banking sector, funding conditions remained favourable and the stock of NPEs continued to decline in 2019, albeit marginally, following the sharp declines of 2018 associated with the resolution of the Cyprus Cooperative Bank and the sale of a package of loans by the Bank (Project Helix). Total loans at the end of 2019 were €33.7 bn or 153% of GDP compared to €39.2 bn at the end of 2018. Loans to residents excluding the government were €26.3 bn as at end 2019. The stock of NPEs declined from €20.9 bn at the end of December 2017 to €10.4 bn at the end of December 2018 and to €9.5 bn at the end of November 2019. The ratio to gross loans was 28.6% and the coverage ratio was 54.6% also at end November 2019.

In the public sector, the process of fiscal consolidation that started under the economic adjustment programme reversed the large budget deficits of the period 2009 - 2013 to sizeable surpluses. The budget surplus was 1.7% of GDP in 2017 and 3.0% of GDP in 2018, excluding the fiscal burden associated with the orderly resolution of the Cyprus Cooperative Bank. Total public debt rose from 93.9% of GDP at the end of 2017 to 100.6% of GDP at the end of 2018. This increase was attributable to the fiscal burden from the resolution of the Cyprus Cooperative Bank. In 2019 the budget surplus was 2.7% of GDP and the total public debt was down to 95.5% of GDP (Cyprus Statistical Service).

Cyprus macroeconomic outlook

Looking forward to 2020, the outlook is severely affected by the COVID-19 outbreak. According to the IMF's April 2020 World Economic Outlook, the Cypriot economy is expected to contract by 6.5% in the year and to rebound by 5.6% in 2021. In comparison, the IMF forecasts a 7.5% contraction in the Euro Area in 2020, to be followed by a rebound of 4.7% in 2021. Fiscal support measures are expected to limit the contraction of the Cypriot economy, but to lead to a deterioration of the Government's fiscal position. The fiscal balance is expected to turn from a surplus into a sizeable deficit in 2020 and public debt to rise significantly.

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting expectations of a sustained decline in public debt as a ratio to GDP, further declines in non-performing exposures and a more stable price environment following a protracted period of deflation and low inflation. In November 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with stable outlook. In October 2019, Fitch affirmed its rating and upgraded its outlook to positive. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3 with a stable outlook. In September 2019 Moody's affirmed its rating and upgraded its outlook to positive. S&P Global Ratings maintains an investment grade rating (BBB-) with a stable outlook since September 2018, which was affirmed in March 2020.

In April 2020, Fitch affirmed its rating and revised its outlook to stable, reflecting the significant impact the COVID-19 pandemic might have on the Cypriot economy and fiscal position. Also, in April 2020, Moody's issued an update on their credit opinion for the Cyprus Sovereign and revised their forecasts for the Cypriot economy in view of the COVID-19 outbreak. According to the update, the outbreak will weigh on near term growth and fiscal prospects, but the impact on the credit profile is expected to be temporary.

D. Business Overview

As the Cypriot operations account for 99% of gross loans and 100% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In June 2019, Moody's Investors Service affirmed the Bank's long-term deposit rating of B3 (positive outlook) and in July 2019, Standard and Poor's affirmed their long-term issuer credit rating on the Bank of 'B+' (stable outlook). In November 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In April 2020, Fitch Ratings revised their outlook to negative, reflecting the significant impact the outbreak of COVID-19 might have on the Cypriot economy and consequently the Bank.

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. On the basis of currently available information, the Group is not in a position to accurately assess the magnitude of the future impact of COVID-19 on the Group's operations and financial results, as this will principally depend on the rate and extent of the spread of the virus, its direct and indirect impact on customers and the effectiveness of the regulatory and fiscal measures taken to support the economy and mitigate the impact of the virus.

In common with other European banks, the persistently low interest rate environment continues to present a challenge to the Group's profitability. As a consequence of the current challenging economic conditions resulting from the COVID-19 outbreak, the Group will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for 1Q2020 in line with the relevant regulatory guidance, and anticipates that this may result in increased organic provisions in 1Q2020, although the exact quantum of any such increase is as yet unknown. Despite the lower transactional income and lower demand for loans currently observed, the on-going economic uncertainty means that the Group does not have sufficient visibility about the likely future impact of COVID-19 on its operations or financial results, and therefore, is currently not in a position to provide guidance for the current financial year. However, the Group's good capital base and strong liquidity, position it to be able to support its customers through this period of extreme volatility.

The Group's medium-term strategic priorities remain clear, with a sustained focus on strengthening its balance sheet, and improving asset quality and efficiency in order to continue to play a vital role in supporting the Cypriot economy.

In light of the recent outbreak of COVID-19, the Group is taking all appropriate measures, in line with guidelines and recommendations issued by the Ministry of Health, to **protect the health** of both staff and customers, while ensuring the operational resilience of the Bank.

Upon the outbreak of COVID-19, the Pandemic Incident Management Plan (PIMP) of the Group was invoked and a dedicated team is monitoring the situation domestically and globally and provide guidance on health and safety measures, travel advice and business continuity for our Group. Local government guidelines are being followed in response to the virus. Also, the potential economic implications for the sectors where the Group is active in are being assessed in order to identify possible mitigating actions.

In accordance with the Pandemic Plan, the Group has adopted a set of measures to ensure minimum disruption to its operations. The measures comprise rules for quarantine for employees who are vulnerable due to health conditions and for those who have returned from epicentres of the infection. The Group has replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. Staff for critical functions has been split into separate locations. In addition, to ensure continuity of business, many employees are working from home and the remote access capability has been updated significantly. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers.

As the leading financial institution in the country, the Group has a good capital position and a significant liquidity surplus of over €3 bn as it heads into uncertain times, to support its customers and the economy to recover from this shock. The Bank has considerable experience in managing challenging circumstances. The Management maintains its relentless focus on asset quality, funding, capital and efficiency to ensure the Bank maintains its financial strength, but remains equally flexible to adjust its short term priorities as needed to react the emerging conditions of these unprecedented times. The Management's investment in the digital transformation programme has strengthened the Group's operational resilience and enabled the full deployment of digital service channels to customers. For further information, please refer to the section "Digital Transformation" below.

In addition, the package of policy measures announced by the ECB and the European Commission, as well as the unprecedented fiscal and other measures of the Cyprus Government, should help reduce the negative impact and support the recovery of the Cypriot economy. For further information please refer to Note 56 'Events after the reporting date' of the Consolidated Financial Statements for the year ended 31 December 2019.

Tackling the Bank's loan portfolio quality is of utmost importance for the Group. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. Following the outbreak of COVID-19 the Group is now focused on **arresting any potential asset quality deterioration**. Once economic conditions normalise, the Group expects to resume its efforts to improve its asset quality position by seeking solutions, both organic and inorganic, to make the Bank a stronger and safer institution, capable of continuing to support the local economy.

D. Business Overview (continued)

The July 2018 foreclosure law amendments have expedited the process and limited options to frustrate execution. In July 2019, the Cyprus Parliament voted through certain changes to the 2018 law which, in the most part, seek to (a) provide additional checks and balances where banks are seeking to foreclose small loans (<€350 thousand) secured by a principal private residence, and (b) extend the foreclosure timetable by extending various notice periods. These **amendments have not yet passed into law**, as the President of the Republic has referred these to the Supreme Court, based on legal advice from the Attorney General that elements thereof are unconstitutional. Discussions are on-going, including, inter alia, with the Ministry of Finance, the CBC and the Financial Ombudsman, aiming to introduce amendments to the foreclosure and loan restructuring framework that are acceptable to all stakeholders. Following the outbreak of COVID-19, the foreclosure process has been **suspended** until 18 June 2020, in line with the decision of the Association of Cyprus Banks.

The strategic focus of the Group on asset quality, funding, capital and efficiency aims to ensure that it maintains its financial strength. During the year ended 31 December 2019, new lending exceeded €2.0 bn, the highest since FY2015. To date, growth in new lending in Cyprus has been focused on selected industries more in line with the Bank's target risk profile, such as tourism, trade, real estate, professional services, information/communication technologies, energy, education and green projects. The Group has also been exploring ways to grow its new lending, including careful, modest new lending in shipping, syndicated loans, as well as other initiatives.

Following the outbreak of COVID-19, the sectors most adversely affected initially are expected to be tourism, trade, transport and construction. The Group has a well – diversified performing loan portfolio. As at 31 December 2019, the Group's performing loan book exposure to tourism was limited to €1.0 bn, out of a total performing loan book of €9.2 bn. Respectively, the Group's performing loan book exposure to trade was also €1.0 bn, whilst to construction was limited to €0.5 bn. At the same time, the Group had only a small performing loan book exposure to the oil and gas industry of less than €45 mn.

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

Management is also placing emphasis on diversifying income streams by optimising fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, as such business have been providing a stable, recurring fee income, further diversifying the Group's income streams. The insurance income net of claims and commissions for FY2019 amounted to €58 mn, up by 9% yoy, contributing to 19% of non-interest income.

In order to **further optimise its funding structure**, the Bank continues to **focus on the shape and cost of deposit franchise,** taking advantage of the increased customer confidence towards the Bank. The cost of deposits has been reduced by 60 bps to 16 bps over the last 24 months. In addition, liquidity fees for specific customer groups have been introduced in March 2020.

A key focus of the Group remains the active management of funding costs and on-going running expenses. The Digital Transformation Programme that started in 2017 has begun to deliver an improved customer experience (see section below), whilst the branch footprint rationalisation continued in the fourth quarter, further improving the Bank's operating model. The number of branches was reduced by 18% in 2019 and the branch network is now less than half the size it was in 2013. The management remains focused on further improvement in efficiency.

Digital Transformation

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

In recent months, various new features were introduced on the new mobile app, such as managing standing orders and direct debits, login through biometric authentication and viewing own accounts with UK and Cypriot banks. Also, financial management tools have been introduced that allow customers to use the 1Bank service to better manage their finances. Moreover, Mastercard holders are now able to make secure and fast payments through Apple Pay (iOS) and soon they will also be able to do this through BoC Wallet (Android).

Moreover, the launch of the new Cards and Payments systems has been completed. This is expected to offer customised solutions and improve the customer banking experience. For example, it is expected to offer new features through mobile banking in 2020, such as the ability for the customer to freeze their credit or debit card in the event of a loss (freeze and unfreeze), and the ability to determine a maximum limit for specific transactions.

D. Business Overview (continued)

Digital Transformation (continued)

The adoption of digital products and services continued to grow and gain momentum in 2019. As at the end of 2019, 77% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (compared to 67% two years earlier). Regarding the use of mobile banking, the number of active users increased by 20% in 2019. In 2020, as a result of the COVID-19 restrictive measures, a reduction in cash withdrawals and deposits performed through the branch network has been observed. An increase in the adoption of digital products and services and in digital subscriber penetration has also been observed as more customers have gained access to digital channels and more cards have been issued. As at the end of March 2020, 70% of customers were digitally engaged (up by 10 p.p. from 60% since the digital transformation programme was initiated in September 2017). A further increase is expected in 2Q2020 driven by the increase in the number of subscribers and the number of cards that have been issued. Within this context, the Bank has launched various initiatives aiming to provide better, faster and safer services. Such initiatives include amongst others the issuance of debit cards free of charge until the end of May 2020, as well as the provision of SMS Digipass devices free of charge. Additionally, new customers can open an account via the Bank's website and receive a debit card free of charge, and new customers can receive free subscription to internet banking.

Furthermore, changes in the workplace, with the introduction of new technologies and tools that will drastically change the employee experience, improving collaboration and knowledge sharing across the organisation, are expected to be seen in 2020.

The Bank has been awarded the 'Best Consumer Digital Bank in Cyprus' award for 2019 by Global Finance.

E. Strategy and Outlook

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

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

- **Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions**
- Achieve a **lean operating model**
- **Maintain an appropriate capital position** by internally generating capital
- **Further optimise the funding structure**
- Focus on the **core Cyprus market**
- **Deliver value** to shareholders and other stakeholders

KEY PILLARS	ACTION TAKEN IN 2019	PLAN OF ACTION
1. Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions	• Please refer to Sections B.2.5 'Loan Portfolio Quality' and B.2.6 'Real Estate Management Unit'	• Focus on realising collateral via consensual and non - consensual foreclosures • Real estate management via REMU • Continue to explore alternative measures for accelerating NPE reduction, such as NPE sales, securitisations etc
2. Achieve a lean operating model	• Please refer to Section B.3.4 '(Loss)/profit after tax (attributable to the owners of the Company)' and Section B.3.2 'Total expenses' for further details in relation to the voluntary staff exit plan that took place in 4Q2019 and Section D 'Business Overview'	• Implementation of Digital Transformation Programme underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time • Management remains focused on further improvement in efficiency
3. Maintain an appropriate capital position	• Please refer to Section B.2.1 'Capital Base'	• Internally generating capital
4. Further optimise the funding structure	• Please refer to Section B.2.3 'Funding and Liquidity'	• Focus on shape and cost of deposit franchise • Introduction of liquidity fees
5. Focus on core Cyprus market	• Please refer to Sections B.2.4 'Loans', B.3.1 'Total income' and D 'Business Overview'	• Targeted lending in Cyprus into growing sectors to fund recovery • New loan origination, while maintaining lending yields • Revenue diversification via fee and commission income from international banking, wealth and insurance which provides stable, recurring income
6. Deliver value	• Please refer to page 10 for the Key Balance Sheet figures and ratios, as well as the Capital ratios and risk weighted assets	• Deliver appropriate medium-term risk-adjusted returns

E. Strategy and Outlook (continued)

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. On the basis of currently available information, the Group is not in a position to accurately assess the magnitude of the future impact of COVID-19 on the Group's operations and financial results, as this will principally depend on the rate and extent of the spread of the virus, its direct and indirect impact on customers and the effectiveness of the regulatory and fiscal measures taken to support the economy and mitigate the impact of the virus.

In common with other European banks, the persistently low interest rate environment continues to present a challenge to the Group's profitability. As a consequence of the current challenging economic conditions resulting from the COVID-19 outbreak, the Group will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for 1Q2020 in line with the relevant regulatory guidance, and anticipates that this may result in increased organic provisions in 1Q2020, although the exact quantum of any such increase is as yet unknown. Despite the lower transactional income and lower demand for loans currently observed, the on-going economic uncertainty means that the Group does not have sufficient visibility about the likely future impact of COVID-19 on its operations or financial results, and therefore, is currently not in a position to provide guidance for the current financial year. However, the Group's good capital base and strong liquidity, position it to be able to support its customers through this period of extreme volatility.

The Group's medium-term strategic priorities remain clear, with a sustained focus on strengthening its balance sheet, and improving asset quality and efficiency in order to continue to play a vital role in supporting the Cypriot economy.

F. Definitions & Explanations

Accelerated phase-in period	Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions, the DTA was phasing-in by 60% for 2017, 80% for 2018 and 100% for 2019 (fully phased-in).
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprises (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities, and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
Advisory and other restructuring costs	Comprise mainly: fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 fully loaded (FL)	The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service	The latest data from the Statistical Service of the Republic of Cyprus, Cyprus Statistical Service, was published on 31 March 2020.
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. Digital channels include mobile, browser and ATMs. It also captures access to a card as well as online card purchases.
ECB	European Central Bank
Gross loans	Gross loans are reported before the residual fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €271 mn at 31 December 2019 (compared to €278 mn at 30 September 2019 and €462 mn at 31 December 2018). Additionally, gross loans (i) include loans and advances to customers classified and measured at fair value through profit and loss adjusted for the aggregate fair value adjustment of €427 mn at 31 December 2019 (compared to €430 mn at 30 September 2019 and €456 mn as at 31 December 2018), and (ii) are reported after the reclassification between gross loans and allowance for expected credit losses on loans and advances to customers classified as held for sale of Nil as at 31 December 2019 (compared to Nil as at 30 September 2019 and €99 mn at 31 December 2018).
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.
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan credit losses (PL) (previously 'Provision charge')	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL.

F. Definitions & Explanations (continued)

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

F. Definitions & Explanations (continued)

Non-performing exposures (NPEs)	According to the EBA standards and ECB's Guidance to Banks on Non-Performing Loans (published in March 2017), 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, distress restructuring and obligor bankruptcy, (iii) material exposures as set by the CBC , which are more than 90 days past due, (iv) performing forborne exposures under probation for which additional forbearance measures are extended, and (v) performing forborne exposures under probation that present more than 30 days past due within the probation period. 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. 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 Consolidated Income Statement – Underlying basis' relate to: (i) advisory and other restructuring costs - organic, (ii) restructuring costs – Voluntary Staff Exit Plan (VEP), (iii) Provisions/net (loss)/profit relating to NPE sales, (iv) (Loss)/profit on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates, (v) Reversal of impairment of DTA and impairment of other tax receivables, and (vi) Profit from discontinued operations (UK).
NPE coverage ratio (previously 'NPE Provisioning coverage ratio')	The NPE coverage ratio is calculated as the allowance for expected loan credit losses (as defined) over NPEs (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).
NPE sales	NPE sales refer to NPE sale transactions completed in the year, as well as sale transactions being contemplated as at year-end, irrespective of whether they met the held for sale classification criteria as at 31 December 2019.
Operating profit	Comprises profit before Total loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Pro forma for CNP	Includes the impact from the completion of the sale of the investment in CNP.
Pro forma for CNP and VEP	Includes the impact from the completion of the sale of the investment in CNP and the Voluntary Staff Exit Plan (VEP).
Pro forma for Helix	Includes the impact from the completion of Project Helix, as well as the impact from the agreement for the sale of a portfolio of retail unsecured NPEs, with gross book value €33 mn as at 31 March 2019, known as Project Velocity 1.
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	Excludes non-recurring items (as defined).
Profit/(loss) after tax – organic (attributable to the owners of the Company)	Profit/(loss) after tax and before 'non-recurring items' as defined (attributable to the owners of the Company), except for the 'advisory and other restructuring costs – organic'.

F. Definitions & Explanations (continued)

Quarterly average interest earning assets	Average of interest earning assets as at the beginning and end of the relevant quarter. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Special levy	Relates to the special levy on deposits of credit institutions in Cyprus.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Total expenses	Total expenses comprise staff costs, other operating expenses and the special levy and contribution to the Single Resolution Fund. It does not include 'advisory and other restructuring costs-organic', or any restructuring costs relating to the Voluntary Staff Exit Plan, or any restructuring costs relating to NPE sales. 'Advisory and other restructuring costs-organic' amounted to €22 mn for FY2019 (compared to €42 mn for FY2018) and to €8 mn for 4Q2019 (compared to €4 mn for 3Q2019). Restructuring costs relating to the Voluntary Staff Exit Plan amount to €81 mn for both 4Q2019 and FY2019. Restructuring costs relating to NPE sales amounted to €25 mn for FY2019 (compared to €18 mn for FY2018) and to €10 mn for 4Q2019 (compared to €6 mn for 3Q2019).
Total income	Total income comprises net interest income and non-interest income (as defined).
Total loan credit losses, impairments and provisions	Total loan credit losses, impairments and provisions comprises loan credit losses (as defined), plus (provisions)/reversal of provisions for litigation, claims, regulatory and other matters plus (impairments)/reversal of impairments of other financial and non-financial assets.
Underlying basis	This refers to the statutory basis after being adjusted for certain items as explained in the Basis of Presentation.
Write offs	Loans together with the associated loan credit losses are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, “BOC Holdings” or “the Company”, its subsidiary Bank of Cyprus Public Company Limited, the “Bank” or “BOC PCL”, and together with the Bank’s subsidiaries, the “Group”, for the year ended 31 December 2019.

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 year ended 31 December 2019. The financial information in this announcement does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2019, upon which the auditors have given an unqualified report, are expected to be published today and delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2020. The Board of Directors approved the Group statutory financial statements for the year ended 31 December 2019 on 28 April 2020. BOC Holdings’ statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the year ended 31 December 2018, upon which the auditors gave an unqualified report, were published on 28 March 2019 and were annexed to the annual return and delivered to the Registrar of Companies of Ireland.

Statutory basis: Audited statutory information is set out on pages 6-7. However, a number of factors have had a significant effect on the comparability of the Group’s financial position and results. Accordingly, the results are also presented on an underlying basis.

Underlying basis: The statutory results are adjusted for certain items (as described on pages 11-12) to allow a comparison of the Group’s underlying performance, as set out on pages 8-10.

This announcement and the presentation for the Group Financial Results for the year ended 31 December 2019 have been posted on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

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

The Group Financial Results for the year ended 31 December 2019 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 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 and information technology, litigation and other operational risks. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward looking statements. The forward-looking statements made in this document are only applicable as from the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained in this document to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which any statement is based.

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The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Bank of Cyprus Group operates through a total of 99 branches in Cyprus, of which 13 operate as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 3,672 staff worldwide. At 31 December 2019, the Group's Total Assets amounted to €21.1 bn and Total Equity was €2.3 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.