Bank of Cyprus Holdings

Announcement

Group Financial Results for the six months ended 30 June 2020

Nicosia, 28 August 2020

Key Highlights for the six months ended 30 June 2020

COVID-19

- Confirmed COVID-19 cases remain amongst the lowest within EU, despite relaxation of measures
- Continue to support colleagues, customers affected by COVID-19 and wider Cypriot economy
- Nascent signs of economic recovery post lockdown

€1.3 bn NPE reduction in 1H2020, including NPE sales

- €0.9 bn NPE sale (Helix 2) agreed in August 2020
- Organic NPE reduction of €137 mn in 2Q2020, despite lockdown
- Completion of €133 mn NPE sale (Velocity 2) in 2Q2020
- NPEs reduced to €2.6 bn (€1.1 bn net) pro forma for Helix 2
- Gross NPE ratio reduced to 22% (11% net) and coverage maintained at 58%, pro forma for Helix 2

Good Capital and Strong Liquidity Position

- Total Capital ratio of 17.9% and CET1 ratio of 14.4% (IFRS 9 transitional), pro forma for Helix 2
- Deposits at €16.3 bn, broadly flat qoq; significant surplus liquidity of €3.9 bn (LCR at 257%)

Operational efficiency

- Cost to income ratio (excluding special levy and contributions to SRF and DGF) at 57% for 2Q2020, broadly flat on prior quarter
- Total operating expenses reduced to €81 mn for 2Q2020, down by 18% year on year and by 3% quarter on quarter
- Increased usage of digital channels sustained post lockdown

Performance in 2Q2020

- New lending of €238 mn for 2Q2020 (down by 47% quarter on quarter), impacted by COVID-19 lockdown
- Underlying result of profit after tax from organic operations of €4 mn for 2Q2020
- Provisions/net loss relating to NPE sales (including restructuring expenses) of €104 mn for 2Q2020, including Helix 2 loss of €68 mn and loan credit losses of €21 mn for potential future NPE sales
- Loss after tax of €100 mn for 2Q2020 and €126 mn for 1H2020

Group Chief Executive Statement

"In the second quarter of the year, we faced the current peak of the health pandemic crisis in Cyprus, followed by the gradual easing of the restrictive measures leading to increased economic activity. The global impact from the pandemic, however, continues to affect the economy and uncertainty remains.

Despite the lockdown we have continued to deliver on our strategic priorities of strengthening our balance sheet and improving our asset quality and efficiency, while supporting our customers, colleagues and community through COVID-19.

We have continued to support the Cypriot economy by granting €689 mn new loans in the first half of the year, via prudent underwriting standards; 98% of new exposures in Cyprus since 2016 are performing.

Despite the challenging market conditions, we reached agreement for the sale of €0.9 bn NPEs in Project Helix 2 earlier this month. We further reduced our NPEs organically by €279 mn in the first half of the year and completed the sale of €133 mn NPEs in Project Velocity 2. These combined de-risking actions have reduced NPEs in the first six months of 2020 by €1.3 bn. Overall, since the peak in 2014, we have now reduced the stock of NPEs by €12.4 bn or 83% to €2.6 bn and our NPE ratio is now reduced to 22% on a pro forma basis.

We remain committed to further de-risking of the balance sheet and will continue to seek solutions, both organic and inorganic to achieve this. We will continue to assess the potential to accelerate the reduction in NPEs on our balance sheet through additional sales of NPEs in the future. At the same time, we are working closely with our clients to arrest potential future asset quality deterioration and NPE inflows once moratoria periods and other government support schemes come to an end.

The Bank's capital and liquidity position remains good and in excess of our regulatory requirements. As at 30 June 2020, our capital ratios (IFRS 9 transitional) were Total Capital ratio of 17.9% and CET1 of 14.4%, both pro forma for Helix 2. We continue to operate with significant liquidity surplus of €3.9 bn (LCR at 257%).

At the same time, we are focusing on improving our operational efficiency. Our cost to income ratio stood at 57%, whilst total operating expenses for the second quarter of the year were reduced by 18% yoy, enabled by our digital transformation programme which continues to progress well. Currently, 72% of our customers are digitally engaged and 83% of total transactions are performed through digital channels, up by 5 p.p. and 9 p.p. respectively year on year.

During the second quarter of the year, we generated total income of €143 mn and a positive operating result of €56 mn. The underlying result for the quarter was a profit of €4 mn and the overall result a loss after tax of €100 mn, including the loss on Project Helix 2 of €68 mn and loan credit losses of €21 mn for potential future NPE sales.

The results this quarter mark further progress against delivering on our strategic objectives of becoming a stronger, safer and more efficient institution, and we are now better positioned to manage the challenges resulting from the impact of the ongoing COVID-19 crisis and to support the recovery of the Cypriot economy. Whilst it is too early to claim that Cyprus has overcome the COVID-19 crisis, we stand ready to continue to protect and support our customers, colleagues and the community in which we operate".

Panicos Nicolaou

A. Group Financial Results – Statutory Basis

Interim Consolidated Income Statement for the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019 (restated)
	€000	€000
Turnover	**376,652**	485,646
Interest income	**198,749**	251,805
Income similar to interest income	**24,398**	26,683
Interest expense	**(31,998)**	(50,415)
Expense similar to interest expense	**(23,349)**	(23,964)
Net interest income	**167,800**	204,109
Fee and commission income	**74,909**	85,968
Fee and commission expense	**(3,664)**	(5,201)
Net foreign exchange gains	**10,543**	14,117
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	**4,848**	12,155
Insurance income net of claims and commissions	**28,915**	30,036
Net losses from revaluation and disposal of investment properties	**(2,329)**	(1,349)
Net gains on disposal of stock of property	**2,676**	17,747
Other income	**8,043**	15,679
	291,741	373,261
Staff costs	**(96,208)**	(114,244)
Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies	**(15,323)**	(18,732)
Other operating expenses	**(94,564)**	(112,967)
	85,646	127,318
Net gains on derecognition of financial assets measured at amortised cost	**2,617**	5,429
Credit losses to cover credit risk on loans and advances to customers	**(183,711)**	(108,911)
Credit losses of other financial instruments	**(626)**	(7,367)
Impairment of non-financial assets	**(28,584)**	(11,585)
(Loss)/profit before share of profit from associates and remeasurement	**(124,658)**	4,884
Remeasurement of investment in associate upon classification as held for sale	**-**	(25,943)
Share of (loss)/profit from associates	**(206)**	5,312
Loss before tax	**(124,864)**	(15,747)
Income tax	**(4,259)**	115,144
(Loss)/profit after tax for the period	**(129,123)**	99,397
Attributable to:		
Owners of the Company	**(125,618)**	97,398
Non-controlling interest	**(3,505)**	1,999
(Loss)/profit for the period	**(129,123)**	99,397
Basic and diluted (loss)/profit per share attributable to the owners of the Company (€ cent)	**(28.2)**	21.8

A. Group Financial Results – Statutory Basis (continued)

Interim Consolidated Balance Sheet as at 30 June 2020

	30 June 2020	31 December 2019
Assets	**€000**	€000
Cash and balances with central banks	**5,276,398**	5,060,042
Loans and advances to banks	**621,960**	320,881
Derivative financial assets	**16,250**	23,060
Investments	**1,821,413**	1,682,869
Investments pledged as collateral	**177,517**	222,961
Loans and advances to customers	**10,104,240**	10,721,841
Life insurance business assets attributable to policyholders	**446,773**	458,852
Prepayments, accrued income and other assets	**254,606**	243,930
Stock of property	**1,344,126**	1,377,453
Deferred tax assets	**341,333**	379,126
Investment properties	**134,152**	136,197
Property and equipment	**280,783**	288,054
Intangible assets	**176,478**	178,946
Investments in associates and joint venture	**2,188**	2,393
Non-current assets and disposal groups held for sale	**372,591**	26,217
Total assets	**21,370,808**	21,122,822
Liabilities		
Deposits by banks	**406,357**	533,404
Funding from central banks	**999,806**	-
Repurchase agreements	**123,098**	168,129
Derivative financial liabilities	**55,734**	50,593
Customer deposits	**16,302,896**	16,691,531
Insurance liabilities	**628,457**	640,013
Accruals, deferred income, other liabilities and other provisions	**313,217**	324,246
Pending litigation, claims, regulatory and other matters	**112,972**	108,094
Subordinated loan stock	**260,727**	272,170
Deferred tax liabilities	**47,343**	46,015
Total liabilities	**19,250,607**	18,834,195
Equity		
Share capital	**44,620**	44,620
Share premium	**1,294,358**	1,294,358
Revaluation and other reserves	**190,888**	210,701
Retained earnings	**345,327**	490,286
Equity attributable to the owners of the Company	**1,875,193**	2,039,965
Other equity instruments	**220,000**	220,000
Total equity excluding non-controlling interests	**2,095,193**	2,259,965
Non-controlling interests	**25,008**	28,662
Total equity	**2,120,201**	2,288,627
Total liabilities and equity	**21,370,808**	21,122,822

Comparative Information on Statutory Basis

Please refer to Note 3.1 of the Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2020 for details on the restatements on comparative information. The changes did not have an impact on the results for the period or the equity of the Group.

B. Group Financial Results – Underlying Basis

Consolidated Condensed Interim Income Statement

€ mn	1H2020	1H2019[1]	2Q2020	1Q2020	qoq +%	yoy +%
Net interest income	168	170	83	85	-2%	-1%
Net fee and commission income	71	75	33	38	-13%	-5%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	12	26	6	6	21%	-53%
Insurance income net of claims and commissions	29	30	18	11	54%	-4%
Net gains/ (losses) from revaluation and disposal of investment properties and on disposal of stock of properties	0	16	(1)	1	-	-98%
Other income	8	16	4	4	-20%	-49%
Total income	**288**	**333**	**143**	**145**	-1%	-13%
Staff costs	(96)	(112)	(47)	(49)	-4%	-14%
Other operating expenses	(69)	(84)	(34)	(35)	-2%	-19%
Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)	(15)	(12)	(6)	(9)	-33%	23%
Total expenses	**(180)**	**(208)**	**(87)**	**(93)**	-6%	-14%
Operating profit	**108**	**125**	**56**	**52**	7%	-13%
Loan credit losses	(87)	(87)	(23)	(64)	-63%	1%
Impairments of other financial and non-financial assets	(29)	(10)	(25)	(4)	-	-
(Provisions)/reversal of provisions for litigation, claims, regulatory and other matters	(4)	3	(2)	(2)	10%	-
Total loan credit losses, impairments and provisions	**(120)**	**(94)**	**(50)**	**(70)**	-28%	27%
(Loss)/profit before tax and non-recurring items	**(12)**	**31**	**6**	**(18)**	-	-
Tax	(5)	0	(3)	(2)	47%	-
Profit/(loss) attributable to non-controlling interests	4	(2)	4	(0)	-	-
(Loss)/profit after tax and before non-recurring items (attributable to the owners of the Company)	**(13)**	**29**	**7**	**(20)**	-	-
Advisory and other restructuring costs – organic	(6)	(10)	(3)	(3)	0%	-39%
(Loss)/profit after tax – organic (attributable to the owners of the Company)	**(19)**	**19**	**4**	**(23)**	-	-
Provisions/net loss relating to NPE sales, including restructuring expenses[2]	(107)	(2)	(104)	(3)	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	-	(21)	-	-	-	-
Reversal of impairment of DTA and impairment of other tax receivables	-	101	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(126)**	**97**	**(100)**	**(26)**	-	-

B. Group Financial Results – Underlying Basis (continued)

Consolidated Condensed Interim Income Statement – Key Performance Ratios

Key Performance Ratios[3]	**1H2020**	**1H2019**[1]	**2Q2020**	**1Q2020**	qoq ±%	yoy ±%
Net Interest Margin (annualised)	1.90%	1.88%	1.88%	1.95%	-7 bps	+2 bps
Cost to income ratio	62%	63%	61%	64%	-3 p.p.	-1 p.p.
Cost to income ratio excluding special levy and contributions to SRF and DGF	57%	59%	57%	58%	-1 p.p.	-2 p.p.
Operating profit return on average assets (annualised)	1.0%	1.2%	1.1%	1.0%	+10 bps	-20 bps
Basic losses/earnings per share attributable to the owners of the Company - organic (€ cent)	(4.32)	4.01	0.82	(5.14)	5.96	(8.33)
Basic (losses)/earnings per share attributable to the owners of the Company (€ cent)	(28.16)	21.84	(22.35)	(5.81)	(16.54)	(50.00)

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

Commentary on Underlying Basis

The financial information presented in this Section provides an overview of the Group financial results for the six months ended 30 June 2020 on the 'underlying basis' which the management believes best fits the true measurement of the performance and position of the Group.

Reconciliations between statutory basis and underlying basis are included in section B.1 'Reconciliation of Income Statement for the six months ended 30 June 2020 between statutory basis and underlying basis' and in 'Definitions and explanations on Alternative Performance Measures Disclosures' of the 'Interim Financial Report 2020', to allow for the comparability of the underlying basis to statutory information.

With the respect to the 'Balance Sheet Analysis', please note the following in relation to the disclosure of pro forma figures and ratios with respect to Project Helix 2. In August 2020 the Group reached agreement with funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), for the sale of a portfolio of loans with gross book value of €0.9 bn, known as Project Helix 2. Further details on the transaction are provided in Section B.2.5 'Loan Portfolio quality'. All relevant figures are based on 30 June 2020 financial results, unless otherwise stated. Numbers on a pro forma basis are based on the 30 June 2020 underlying basis figures and are adjusted for the Project Helix 2 and assume completion of the transaction, which remains subject to customary regulatory and other approvals. Where numbers are provided on a pro forma basis this is stated.

In addition, the following change was made in the underlying basis, **when compared with previous disclosures**.

Reclassifications effected to comparative information were made so that 'advisory and other restructuring costs' for 1H2019 of c.€1.5 mn (relating to the Project Helix 2 loan portfolio, which was classified as held for sale as at 30 June 2020), were reclassified as non-recurring items within 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis.

B. Group Financial Results – Underlying Basis (continued)

Consolidated Condensed Interim Balance Sheet

€ mn	30.06.2020	31.12.2019	±%
Cash and balances with central banks	5,276	5,060	4%
Loans and advances to banks	622	321	94%
Debt securities, treasury bills and equity investments	1,999	1,906	5%
Net loans and advances to customers	10,104	10,722	-6%
Stock of property	1,344	1,378	-2%
Investment properties	134	136	-2%
Other assets	1,519	1,574	-4%
Non-current assets and disposal groups held for sale	373	26	-
Total assets	**21,371**	**21,123**	**1%**
Deposits by banks	406	533	-24%
Funding from central banks	1,000	-	-
Repurchase agreements	123	168	-27%
Customer deposits	16,303	16,692	-2%
Subordinated loan stock	261	272	-4%
Other liabilities	1,158	1,169	-1%
Total liabilities	**19,251**	**18,834**	**2%**
Shareholders' equity	**1,875**	**2,040**	**-8%**
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	**2,095**	**2,260**	**-7%**
Non-controlling interests	25	29	-13%
Total equity	**2,120**	**2,289**	**-7%**
Total liabilities and equity	**21,371**	**21,123**	**1%**

Key Balance Sheet figures and ratios	**30.06.2020** (proforma)[1]	**30.06.2020** (as reported)[2]	**31.12.2019**	±[2]
Gross loans (€ mn)	**11,593**	**12,491**	12,822	-3%
Allowance for expected loan credit losses (€ mn)	**1,497**	**2,043**	2,096	-3%
Customer deposits (€ mn)	**16,303**	**16,303**	16,692	-2%
Loans to deposits ratio (net)	**62%**	**64%**	64%	+0 p.p.
NPE ratio	**22%**	**28%**	30%	-2 p.p.
NPE coverage ratio	**58%**	**59%**	54%	+5 p.p.
Leverage ratio	**9.1%**	**9.1%**	10.0%	-0.9 p.p.
Capital ratios and risk weighted assets	**30.06.2020** (proforma)[1]	**30.06.2020** (as reported)[2]	**31.12.2019**	±[2]
Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)[3]	**14.4%**	**14.3%**	14.8%	-50 bps
Total capital ratio	**17.9%**	**17.8%**	18.0%	-20 bps
Risk weighted assets (€ mn)	**11,848**	**11,960**	12,890	-7 %

1, Pro forma for the sale of NPEs of €0.9 bn (Project Helix 2); calculations on a pro forma basis assume completion of Project Helix 2, which remains subject to customary regulatory and other approvals. 2. As reported: Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". 3.The CET1 fully loaded ratio as at 30 June 2020 (including the full impact of IFRS 9) amounts to 12.6%, and 12.7% pro forma for Helix 2 (compared to 12.9% as at 31 March 2020 and 13.1% as at 31 December 2019). p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

B. Group Financial Results – Underlying Basis (continued)

B.1 Reconciliation of Income Statement for the six months ended 30 June 2020 between statutory basis and underlying basis

€ mn	Underlying basis	NPE Sales	Other	Statutory basis
Net interest income	168	-	-	168
Net fee and commission income	71	-	-	71
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	12	-	3	15
Insurance income net of claims and commissions	29	-	-	29
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	0	-	-	0
Other income	8	-	-	8
Total income	**288**	**-**	**3**	**291**
Total expenses	(180)	(16)	(10)	(206)
Operating profit	**108**	**(16)**	**(7)**	**85**
Loan credit losses	(87)	(91)	(3)	(181)
Impairments of other financial and non-financial assets	(29)	-	-	(29)
Provisions for litigation, claims, regulatory and other matters	(4)	-	4	-
Loss before tax and non-recurring items	**(12)**	**(107)**	**(6)**	**(125)**
Tax	(5)	-	-	(5)
Loss after tax attributable to non-controlling interests	4	-	-	4
Loss after tax and before non-recurring items (attributable to the owners of the Company)	**(13)**	**(107)**	**(6)**	**(126)**
Advisory and other restructuring costs-organic	(6)	-	6	-
Loss after tax - organic* (attributable to the owners of the Company)	**(19)**	**(107)**	-	**(126)**
Provisions/net loss relating to NPE sales, including restructuring expenses	(107)	107	-	-
Loss after tax (attributable to the owners of the Company)	**(126)**	-	-	**(126)**

*This is the loss after tax (attributable to the owners of the Company), before the provisions/net loss relating to NPE sales, including restructuring expenses.

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

NPE sales

- Total expenses include restructuring costs of €4 mn and operating expenses of €12 mn mainly relating to the sale of portfolios of NPEs and are presented within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.
- Loan credit losses under the statutory basis include the loan credit losses relating to Project Helix 2 of €68 mn, additional loan credit losses of €21 mn within the context of IFRS 9 as a result of potential further NPE sales in the future and €2 mn of additional loan credit losses groups on an NPE portfolio (other than Helix 2) classified as held for sale; these are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.

Other reclassifications

- Advisory and other restructuring costs of c.€6 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 €4 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.
- 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 done as such in order to align them to the net losses on loans and advances to customers at amortised cost.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,095 mn at 30 June 2020, compared to €2,206 mn at 31 March 2020 and €2,260 mn at 31 December 2019. Shareholders' equity totalled €1,875 mn at 30 June 2020, compared to €1,986 mn at 31 March 2020 and €2,040 mn at 31 December 2019.

The **Common Equity Tier 1 capital (CET1) ratio on an IFRS 9 transitional basis** stood at 14.3% at 30 June 2020 (and 14.4% pro forma for the Project Helix 2 sale agreement signed in 3Q2020 (referred to as "pro forma for Helix 2"), compared to 14.3% at 31 March 2020 and 14.8% at 31 December 2019.

During 2Q2020 the CET1 ratio was negatively affected by c.70 bps relating to both the loan credit losses recorded as a result of the anticipated Project Helix 2 agreement and the net loss relating to all other items under the 'provisions/net loss on NPE sales, including restructuring expenses', and positively impacted by c.50 bps relating to the amendments to the capital regulations introduced in June 2020 as a response to COVID-19 with regards to the extension of the IFRS 9 transitional period and the acceleration of changes to the SME supporting factor (which reduces RWAs).

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. In **June 2020, Regulation (EU) 2020/873,** regarding certain adjustments in response to the COVID-19 pandemic, came into force, extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1. Further details are set out further below under 'Implications on capital from the Outbreak of COVID-19'.

The **CET1 ratio on a fully loaded basis (including the full impact of IFRS 9)** amounted to 12.6% as at 30 June 2020 and 12.7% pro forma for Helix 2), compared to 12.9% as at 31 March 2020 and 13.1% as at 31 December 2019. On a transitional basis and on a fully phased-in basis, after the transition period is complete, and also considering the relaxations announced by the ECB, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The **Total Capital ratio** stood at 17.8% as at 30 June 2020 (and 17.9% pro forma for Helix 2), compared to 17.7% as at 31 March 2020 and 18.0% as at 31 December 2019.

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

Based on the final 2019 SREP decision received in December 2019, the Group's **minimum phased-in CET1 capital ratio** was set at **11.0%** (comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement (in the form of CET1), 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%) and the **overall Total Capital requirement at 14.5%,** 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 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. Pillar II add-on capital requirements derive from the context of the SREP, which is a point in time assessment, and are therefore subject to change over time. The final 2019 SREP decision became **effective on 1 January 2020**. In the context of ECB's capital easing measures for COVID-19, the Bank received **an amendment to the December 2019 SREP decision effective as of 12 March 2020**, reducing the Group's **minimum phased-in CET1 capital ratio to 9.7%** (comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%), following the frontloading of the new rules on the Pillar II Requirement composition, to allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET1, initially scheduled to come into effect in January 2021. The Total SREP capital requirement remains **unchanged at 14.5%.**

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

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

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.

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.

The ECB, as part of its supervisory role, has completed an onsite inspection and review on the value of the Group's foreclosed assets with reference date 30 June 2019. The findings, which relate to a possible prudential charge of up to c.50 bps, are currently being reviewed by the Bank's Joint Supervisory Team and no decision has been communicated to the Bank at this stage. The size and timing of the prudential charge (if any) that the Bank may be requested to take in order to address the findings of this review remain uncertain and will depend in part on the Bank's progress in de-risking its balance sheet.

Share premium reduction

Bank

The Bank will proceed (subject to approvals by the ECB and the Court of Cyprus) with a capital reduction process which will result in the reclassification of up to 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. 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 Capital Requirements Regulation (EU) No. 575/2013 (CRR), which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Company

The Company (Bank of Cyprus Holdings PLC) will proceed (subject to approval by the ECB and the Irish High Court) with a capital reduction process which will result in the reclassification of up to €700 mn of the Company's share premium as distributable reserves. The capital reduction has been approved at the Company's Annual General Meeting in 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.

Project Helix 2

In August 2020, the Group reached agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn relate to non-performing exposures) as at 30 June 2020, **known as Project Helix 2**. The impact of this transaction on the Group's CET1 ratio at 30 June 2020 is a decrease of c.50 bps relating to the loan credit losses in relation to the anticipated agreement of €68 mn, including transaction costs. At completion, currently expected in 1H2021, the transaction is expected to have a negative impact of 36 bps on the Group's CET1 ratio. Upon the full payment of the deferred consideration and without taking into consideration any positive impact from the earnout, depending on the performance of the portfolio, the transaction is expected to have an overall positive capital impact of 10 bps on the Group's CET1 ratio.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Project Helix 2 (continued)

All relevant figures and pro forma calculations are based on 30 June 2020 financial results, unless otherwise stated. Calculations on a pro forma basis assume completion of the transaction, which remains subject to customary regulatory and other approvals.

Further NPE sales in the future

The Group remains committed to assess the potential to accelerate the decrease in NPEs through further NPE sales in the future and in the context of IFRS 9, the Bank recognised additional loan credit losses of €21 mn in 2Q2020 (compared to nil in 1Q2020), resulting in a decrease on the Group's CET1 ratio of c.14 bps. On completion of an NPE trade, the Group's capital ratios would benefit from any associated RWA reduction, subject to regulatory approval.

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 CRR, of the DTA amounting to c.€285 mn or a CET1 uplift of c.190 bps in March 2019.

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, 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 recorded an additional amount of €13 mn in 4Q2019 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.

Implications on capital from the Outbreak of COVID-19

The Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. The ECB 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.

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)

In the context of the ECB's capital easing measures for COVID-19, the Bank received an amendment to the December 2019 SREP decision effective as of 12 March 2020, reducing the Group's **minimum phased-in CET1 capital ratio to 9.7%**, 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 (P2G), the capital conservation buffer (CCB) and the countercyclical buffer. The CBC has set the level of the countercyclical buffer for Cyprus at 0% for the six months up to 30 June 2020 and the year 2019. The CBC has also set the level of the countercyclical buffer for Cyprus at 0% for the period 1 July 2020 to September 2020. In July 2020, the ECB committed to allow banks to operate below the P2G and the combined buffer requirement until at least end of 2022, without automatically triggering supervisory actions.

In addition, in April 2020 the CBC decided to delay the phasing-in of the 1 January 2021 and 1 January 2022 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.

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

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

The amendments to the existing IFRS 9 transitional arrangements relate to the extension of the transitional period for the recalculation of the transitional adjustment on credit losses on Stages 1 and 2 loans (dynamic component). A 100% add back of IFRS 9 provisions is allowed for the years 2020 and 2021 reducing to 75% in 2022, to 50% in 2023 and to 25% in 2024. The calculation at each reporting period is to be made against Stage 1 and Stage 2 provisions as at 1 January 2020, instead of 1 January 2018. The calculation of the static component has not been amended. These amendments became effective in June 2020 and added to capital 8 bps as at 30 June 2020.

In relation to the prudential treatment of intangibles, software assets will no longer need to be deducted in full in CET1 calculations, subject to certain criteria. This change shall apply when the associated EBA regulatory technical standard is approved and shall become effective.

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

Since 30 June 2020, and up to 17 August 2020, the mark-to market valuation of the debt securities in the portfolio held at FVOCI remained broadly flat. Any change is recognised directly in equity i.e. through Other Comprehensive Income (OCI).

Furthermore, on 17 August 2020, the Group held Cyprus sovereign debt securities of a nominal amount of €740 mn (compared to €715 mn on 30 June 2020), of which €336 mn is held at FVOCI portfolio and €404 mn is held at amortised cost portfolio. The increase in 1H2020 is mainly due to the Group's participation on the issuance of 52-week treasury bills of the Cyprus Government in April 2020.

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.

In May 2020, the Bank received formal notification from the CBC in its capacity as National Resolution Authority, of the final decision by the Single Resolution Board (SRB), 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 was 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.

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 30 June 2020, calculated according to SRB's eligibility criteria currently in effect and based on the Bank's internal estimate, stood at 18.21% 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 30 June 2020, the Bank's funding from central banks amounted to €1 bn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO III) (compared to no funding from central banks as at 31 December 2019). In June 2020, the Bank borrowed €1 bn from the fourth TLTRO III operation, despite its comfortable liquidity position, given the favourable borrowing rate, in combination with the relaxation of collateral terms.

Deposits

Customer deposits totalled €16,303 mn at 30 June 2020 (compared to €16,246 mn at 31 March 2020 and €16,692 mn at 31 December 2019), remaining broadly flat in the second quarter and reduced by 2% since the year end.

The Bank's deposit market share in Cyprus reached 35.0% as at 30 June 2020, compared to 34.8% at 31 March 2020 and 35.1% as at 31 December 2019. Customer deposits accounted for 76% of total assets and 85% of total liabilities at 30 June 2020 (compared to 79% of total assets and 89% of total liabilities at 31 December 2019).

The net Loans to Deposit ratio (L/D) stood at 64% as at 30 June 2020 (compared to 65% as at 31 March 2020 and 64% as at 31 December 2019). The L/D ratio had reached a peak of 151% as at 31 March 2014.

Subordinated Loan Stock

At 30 June 2020 the Bank's subordinated loan stock (including accrued interest) amounted to €261 mn (compared to €255 mn at 31 March 2020 and €272 mn at 31 December 2019) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 mn, issued by the Bank in January 2017.

Liquidity

At 30 June 2020 the Group Liquidity Coverage Ratio (LCR) stood at 257% (compared to 219% at 31 March 2020 and 208% at 31 December 2019), in compliance with the minimum regulatory requirement of 100%.

The liquidity surplus in LCR at 30 June 2020 amounted to €3.9 bn (compared to €3.0 bn at 31 March 2020 and €3.2 bn at 31 December 2019). The increase in 2Q2020 is driven by the borrowing of €1 bn TLTRO III in June 2020.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will be enforced as a regulatory ratio under CRR II in 2021, with the limit set at 100%. At 30 June 2020, the Group's NSFR, on the basis of Basel III standards, stood at 134% (compared to 126% at 31 March 2020 and 127% at 31 December 2019).

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity (continued)

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

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

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

- Collateral easing measures: The package included a set of collateral easing measures, which resulted in increasing the banks' borrowing capacity at the ECB operations and improving the liquidity buffers due to the lower haircuts applied to the ECB eligible collaterals the bank holds, that comprises of bonds and Credit Claims. The collateral easing packages are designed mainly as temporary measures, that will remain in place until September 2021 with the flexibility to be extended or modified. Furthermore, the ECB enlarged the scope of the Additional Credit Claim (ACC) framework, increasing the universe of eligible loans. In addition, the ECB announced changes in collateral rules, temporarily accepting collaterals with a rating below investment grade, up to a certain rating level.

- Favourable terms of LTRO operations: the package contained measures to provide liquidity support to the euro area financial system, such as a series of LTROs which ran from March to June 2020 so participants could shift their outstanding LTRO amounts to TLTRO III, as well as significant favourable amendments in the terms and characteristics of TLTRO III. Furthermore, a new series of additional longer-term refinancing operations, called Pandemic Emergency longer-term refinancing operations (PELTROs), were introduced with an interest rate of 25 basis points below the average rate applied in the Eurosystem's main refinancing operations (currently 0%) over the life of the respective PELTRO that are maturing in the third quarter of 2021.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loans

Group gross loans totalled €12,491 mn at 30 June 2020, compared to €12,709 mn at 31 March 2020 and €12,822 mn at 31 December 2019. Gross loans in the Group's Cyprus operations totalled €12,416 mn at 30 June 2020 accounting for 99% of Group gross loans. Pro forma for Helix 2, gross loans are reduced by €898 mn to €11,593 mn as at 30 June 2020.

New loans granted in Cyprus reached €689 mn for 1H2020, compared to €1,111 mn for 1H2019 (down by 38% yoy). New loans granted in Cyprus reached €238 mn for 2Q2020, compared to €451 mn for 1Q2020 (down by 47% qoq) and to €548 mn for 2Q2019 (down by 56% yoy). The reduction in new loans follows the restrictive measures as a result of the outbreak of COVID-19.

At 30 June 2020, the Group net loans and advances to customers totalled €10,104 mn (compared to €10,597 mn at 31 March 2020 and €10,722 mn at 31 December 2019). In addition, at 30 June 2020 net loans and advances to customers of €362 mn were classified as held for sale in line with IFRS 5 and relate to Helix 2 (€352 mn) and Helix Tail (€10 mn), compared to €24 mn as at 31 March 2020 and €26 mn as at 31 December 2019 relating to Helix Tail and Velocity 2.

The Bank is the single largest credit provider in Cyprus with a market share of 41.7% at 30 June 2020, compared to 41.0% at 31 March 2020 and to 41.1% at 31 December 2019.

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 €270 mn or 7% during 2Q2020 (comprising an organic reduction of NPEs of €137 mn and a reduction through the completion of Project Velocity 2 of €133 mn) to €3,468 mn at 30 June 2020 (compared to €3,738 mn at 31 March 2020 and €3,880 mn at 31 December 2019), despite the COVID-19 lockdown in March 2020. The Group has recorded organic NPE reductions for twenty-one consecutive quarters. Pro forma for Helix 2, NPEs are reduced by a further €886 mn to €2,582 mn on the basis of 30 June 2020 figures.

The NPEs account for 28% of gross loans as at 30 June 2020, compared to 29% as at 31 March 2020 (improved by 1 p.p. qoq) and 30% at 31 December 2019, on the same basis, i.e. including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". Pro forma for Helix 2 the NPE ratio is reduced to 22% on the basis of the 30 June 2020 figures.

The NPE coverage ratio improved to 59% at 30 June 2020, compared to 56% at 31 March 2020 (improved by 3 p.p. qoq) and 54% at 31 December 2019, on the same basis, i.e. including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". When taking into account tangible collateral at fair value, NPEs are fully covered. Pro forma for Helix 2 the NPE coverage ratio is reduced to 58% on the basis of the 30 June 2020 figures.

	30.06.2020		31.12.2019	
	€ mn	**% gross loans**	€ mn	% gross loans
NPEs as per EBA definition	**3,468**	**27.8%**	3,880	30.3%
Of which, in pipeline to exit: -NPEs with forbearance measures, no arrears[1]	**346**	**2.8%**	428	3.3%

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 2

In August 2020, the Group reached agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn relate to non-performing exposures) as at 30 June 2020, **known as Project Helix 2**.

This portfolio had a contractual balance of €1.46 bn as at the reference date of 30 September 2019 and comprises mainly retail and small-to-medium-sized enterprises, secured by real estate collateral. As at 30 June 2020, this portfolio is classified as a disposal group held for sale and it also includes other assets comprising properties and cash already received since the reference date of c.€34 mn.

The gross consideration amounts to 46% of the gross book value and 29% of the contractual balance, payable in cash, of which 35% is payable at completion, currently expected in 1H2021, and the remaining 65% is deferred without any conditions attached. The deferred component is payable in three broadly equal instalments over 48 months from completion. The consideration can be increased through an earnout arrangement, depending on the performance of the portfolio.

This portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the "CyCAC") by the Bank. The shares of the CyCAC will then be acquired by certain funds affiliated with Pacific Investment Management Company LLC (PIMCO), the purchaser of the portfolio.

Following a transitional period where servicing will be retained by the Bank, it is intended that the servicing of the portfolio will be carried out by a third party servicer selected and appointed by the CyCAC. Arrangements in relation to the migration of servicing from the Bank to the servicer, including the timing of the migration, remain under discussion between the parties.

Project Helix 2 accelerates the Group's strategy of de-risking its balance sheet, by reducing its stock of NPEs by 26% to €2,582 mn pro forma on the basis of the 30 June 2020 figures, and its NPE ratio by 6 p.p., to 22% pro forma on the basis of the 30 June 2020 figures.

All relevant figures and pro forma calculations are based on 30 June 2020 financial results, unless otherwise stated. Calculations on a pro forma basis assume completion of the transaction, which remains subject to customary regulatory and other approvals.

Project Velocity 2

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

Project Helix

In June 2019, the Group announced the completion of Project Helix, that 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. 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. Upon completion, the NPE ratio was reduced by c.11 p.p. to 33% as at 30 June 2019, c.70% lower than its peak in 2014.

Project Velocity 1

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

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

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 €0.8 bn of retail core NPEs as at 30 June 2020, 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. The eligibility criteria 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.

The Scheme is expected to resolve part of the ESTIA-eligible portfolio (€61 mn as per latest available figures in August 2020), to identify non-viable customers for which alternative restructuring solutions are being considered, including by the Government (€45 mn as per latest available figures in August 2020), and to facilitate the resolution of the remaining customers (€695 mn as per latest available figures in August 2020), mainly by focusing on realising collateral through consensual and non-consensual foreclosures.

Following the outbreak of COVID-19, the scheme opened for new applicants for a two-week period in June 2020, and the deadline for borrowers to complete their application was further extended to the end of July 2020.

Additional strategies to accelerate de-risking

The Group remains committed to assess the potential to accelerate the decrease in NPEs through further NPE sales in the future and in the context of IFRS 9, other than the loan credit losses of €68 mn recorded for Project Helix 2, the Bank recognised additional loan credit losses of €21 mn in 2Q2020 (compared to nil in 1Q2020), resulting in a decrease on the Group's CET1 ratio of c.14 bps. In December 2019, additional loan credit losses of €75 mn were recognised as a result of the anticipated balance sheet de-risking at the time.

As at 30 June 2020, a portfolio of credit facilities related to Project Helix of mainly secured non-performing exposures (known as '**Helix Tail**') with gross book value of €44 mn (compared to €45 mn as at 31 March 2020 and €46 mn as at 31 December 2019), was classified as a disposal group held for sale.

B.2. Balance Sheet Analysis (continued)

B.2.6 Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** on-boarded €30 mn of assets in 1H2020 (down by 76% 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 €24 mn in 1H2020 (compared to €92 mn in 1H2019), resulting in a profit on disposal of nil for 1H2020 (compared to a profit on disposal of €16 mn for 1H2019).

During the six months ended 30 June 2020, the Group executed sale-purchase agreements (SPAs) with contract value of €27 mn (170 properties), compared to €110 mn (258 properties) for 1H2019, excluding the sale of Cyreit. In addition, the Group had signed SPAs for disposals of assets with contract value of €53 mn as at 30 June 2020, compared to €49 mn as at 31 March 2020 and €89 mn as at 30 June 2019. Stock of property with a carrying value of €11 mn as at 30 June 2020 was transferred to non-current assets and disposal groups held for sale as it was included in the Helix 2 portfolio.

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 of c. €1 mn. The total proceeds from the disposal of Cyreit were €160 mn.

Completion of Project Helix

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

Assets held by REMU

As at 30 June 2020, assets held by REMU had a carrying value of €1,456 mn (comprising properties of €1,344 mn classified as 'Stock of property' and €112 mn as 'Investment properties'), compared to €1,490 mn as at 31 December 2019 (comprising properties of €1,378 mn classified as 'Stock of property' and €112 mn as 'Investment properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €23 mn as at 30 June 2020 (compared to €24 mn as at 31 December 2019), relate to legacy properties held by the Bank before the set-up of REMU in January 2016.

Assets held by REMU (Group) **€ mn**	**1H2020**	**1H2019**	**2Q2020**	**1Q2020**	qoq ±%	yoy ±%
Opening balance	**1,490**	1,530	**1,484**	1,490	-0%	-3%
On-boarded assets (including construction cost)	**30**	126	**18**	12	46%	-76%
Sales	**(24)**	(92)	**(10)**	(14)	-31%	-74%
Impairment loss	**(29)**	(10)	**(25)**	(4)	-	-
Transfer to non-current assets and disposal groups held for sale	**(11)**	(6)	**(11)**	-	-	71%
Closing balance	**1,456**	1,548	**1,456**	1,484	-2%	-6%

B.2. Balance Sheet Analysis (continued)

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

Analysis by type and country **30 June 2020 (€ mn)**	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	**182**	**25**	**0**	**207**
Offices and other commercial properties	**194**	**28**	**6**	**228**
Manufacturing and industrial properties	**74**	**29**	**0**	**103**
Hotels	**24**	**0**	**-**	**24**
Land (fields and plots)	**619**	**7**	**3**	**629**
Golf courses and golf-related property	**265**	**-**	**-**	**265**
Total	**1,358**	**89**	**9**	**1,456**

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

B.2.7 Non-core overseas exposures

The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 30 June 2020 are as follows:

€ mn	**30 June 2020**	**31 December 2019**
Greece	**135**	139
Romania	**23**	25
Russia	**16**	19
Total	**174**	183

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

In addition to the above, as at 30 June 2020, there were overseas exposures of €269 mn in Greece, relating to both loans and properties (compared to €265 mn at 31 March 2020 and at 31 December 2019), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	1H2020	1H2019[1]	2Q2020	1Q2020	qoq ±%	yoy ±%
Net interest income	168	170	83	85	-2%	-1%
Net fee and commission income	71	75	33	38	-13%	-5%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	12	26	6	6	21%	-53%
Insurance income net of claims and commissions	29	30	18	11	54%	-4%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	0	16	(1)	1	-	-98%
Other income	8	16	4	4	-20%	-49%
Non-interest income	**120**	**163**	**60**	**60**	0%	-26%
Total income	**288**	**333**	**143**	**145**	-1%	-13%
Net Interest Margin (annualised)[2]	1.90%	1.88%	1.88%	1.95%	-7 bps	+2 bps
Average interest earning assets (€ mn)[2]	17,741	18,271	17,690	17,539	1%	-3%

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

Net interest income (NII) and net interest margin (NIM) for 1H2020 amounted to €168 mn and 1.90% respectively, broadly flat year on year, as the pressure on effective loan yields is offset by the decreased cost of deposits. NII and NIM for 2Q2020 amounted to €83 mn (compared to €85 mn for 1Q2020) and 1.88% (compared to 1.95% for 1Q2020) respectively, mainly due to higher cash collections on interest not previously recognised of €4 mn in 1Q2020.

Average interest earning assets for 1H2020 amounted to €17,741 mn, down by 3% yoy, mainly driven by the reduction of liquid assets following repayment of ECB funding (TLTRO II) in September 2019, as well as the reduction in net loans. Quarterly average interest earning assets for 2Q2020 amounted to €17,690 mn, compared to €17,539 mn for 1Q2020 (up by 1% qoq), following the increase of liquid assets resulting from the participation in TLTRO III in June 2020, partly offset by the reduction in net loans.

Non-interest income for 1H2020 amounted to €120 mn (compared to €163 mn in 1H2019, down by 26% yoy), comprising net fee and commission income of €71 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €12 mn, net insurance income of €29 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of nil and other income of €8 mn. Non-interest income for 2Q2020 amounted to €60 mn (flat qoq).

Net fee and commission income for 2Q2020 amounted to €33 mn, compared to €38 mn for 1Q2020, reflecting the COVID-19 lockdown. Net fee and commission income for 2Q2020 includes transactional fees of €12 mn, down 22% qoq, mainly due to lower volume of transactions, as well as non-transactional fees of €21 mn, down 5% qoq, due to the lower Project Helix servicing fee as a result of the transfer of c.100 employees to the buyer in 1Q2020.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €12 mn for 1H2020 (comprising net foreign exchange gains of €10 mn and net revaluation gains on financial instrument transactions of €2 mn) decreased by 53% yoy. The yoy decrease is mainly driven by the lower net revaluation gains. Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €6 mn for 2Q2020 (comprising net foreign exchange gains of €2 mn and net revaluation gains on financial instrument transactions of €4 mn) increased by 21% qoq, driven by net revaluation gains in 2Q2020 compared to net revaluation losses in 1Q2020.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Net insurance income of €29 mn for 1H2020, compared to €30 mn for 1H2019 (broadly flat yoy). Net insurance income of €18 mn for 2Q2020, compared to €11 mn for 1Q2020 (up by 54% qoq), mainly due to lower claims due to the COVID-19 lockdown and the positive returns arising from the change in the valuation rate.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 1H2020 amounted to nil, impacted by the COVID-19 lockdown, compared to €16 mn in 1H2019, relating mainly to net gains on disposal of stock of properties (REMU gains). Net losses from revaluation and disposal of investment properties and on disposal of stock of properties for 2Q2020 amounted to €1 mn impacted by the COVID-19 lockdown, compared to net gains of €1 mn in 1Q2020. REMU profit remains volatile.

Total income for 1H2020 amounted to €288 mn, compared to €333 mn for 1H2019 (down by 13% yoy). Total income for 2Q2020 amounted to €143 mn, broadly flat compared to 1Q2020.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	1H2020	1H2019[1]	2Q2020	1Q2020	qoq +%	yoy +%
Staff costs	(96)	(112)	(47)	(49)	-4%	-14%
Other operating expenses	(69)	(84)	(34)	(35)	-2%	-19%
Total operating expenses	**(165)**	**(196)**	**(81)**	**(84)**	-3%	-16%
Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)	(15)	(12)	(6)	(9)	-33%	23%
Total expenses	**(180)**	**(208)**	**(87)**	**(93)**	-6%	-14%
Cost to income ratio[2]	62%	63%	61%	64%	-3 p.p.	-1 p.p.
Cost to income ratio excluding special levy and contributions to SRF and DGF[2]	57%	59%	57%	58%	-1 p.p.	-2 p.p.

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

Total expenses for 1H2020 were €180 mn (compared to €208 mn for 1H2019 and down by 14% yoy), 53% of which related to staff costs (€96 mn), 38% to other operating expenses (€69 mn) and 9% (€15 mn) to special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF). The yoy decrease is driven by lower other operating expenses and lower staff costs.

Total operating expenses for 1H2020 were €165 mn, compared to €196 mn for 1H2019 (down by 16% yoy). Total operating expenses for 2Q2020 were €81 mn, compared to €84 mn for 1Q2020 (down by 3% qoq).

Staff costs of €96 mn for 1H2020 decreased by 14% yoy (compared to €112 mn in 1H2019), mainly driven by cost savings following the completion of the voluntary staff exit plan (VEP) in 4Q2019, through which c.11% of the Group's full-time employees were approved to leave at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019. The annual savings net of the impact from the renewal of the collective agreement for 2019 and 2020, are estimated at €23 mn or 11% of staff costs. Staff costs of €47 mn for 2Q2020 decreased by 4% qoq (compared to €49 mn in 1Q2020), reflecting the cost savings from the measures relating to the COVID-19 lockdown (special annual leaves to vulnerable groups and suspension of the contribution to the national health system).

The Group employed 3,579 persons as at 30 June 2020 (compared to 3,566 as at 31 March 2020 and 3,672 as at 31 December 2019, including c.100 persons relating to Project Helix who were transferred to the buyer upon full migration in January 2020). The staff costs related to these persons are included under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis.

Other operating expenses for 1H2020 were €69 mn, decreased by 19% yoy from €84 mn in 1H2019, mainly due to lower consultancy, marketing and property-related expenses in 1H2020. Other operating expenses for 2Q2020 were €34 mn, at similar levels as 1Q2020.

Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF) for 1H2020 was €15 mn, compared to €12 mn in 1H2019 (increased by 23% yoy). Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF) for 2Q2020 was €6 mn, compared to €9 mn in 1Q2020 (decreased by 33% qoq). The increase yoy and the decrease qoq is driven by the contribution of the Bank to the Deposit Guarantee Fund (DGF) of €3 mn, which relates to 1H2020 and recorded in 1Q2020 in line with IFRSs.

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

The **cost to income ratio excluding special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)** for 1H2020 was 57%, compared to 59% in 1H2019, reflecting a 16% yoy reduction in total operating expenses and a 13% yoy reduction in total income. The cost to income ratio excluding special levy and contributions to SRF and DGF for 2Q2020 was 57%, compared to 58% in 1Q2020.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

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

€ mn	1H2020	1H2019[1]	2Q2020	1Q2020	qoq ±%	yoy ±%
Operating profit	**108**	**125**	**56**	**52**	7%	-13%
Loan credit losses	(87)	(87)	(23)	(64)	-63%	1%
Impairments of other financial and non-financial assets	(29)	(10)	(25)	(4)	-	-
(Provisions)/reversals of provision for litigation, claims, regulatory and other matters	(4)	3	(2)	(2)	10%	-
Total loan credit losses, impairments and provisions	**(120)**	**(94)**	**(50)**	**(70)**	-28%	27%
(Loss)/profit before tax and non-recurring items	**(12)**	**31**	**6**	**(18)**	-	-
Cost of risk	**1.39%**	**1.34%**	**0.76%**	**2.00%**	-124 bps	+5 bps

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Operating profit for 1H2020 was €108 mn, compared to €125 mn for 1H2019, down by 13% yoy, mainly due to lower total income. Operating profit for 2Q2020 was €56 mn, compared to €52 mn for 1Q2020, up by 7% qoq.

The **loan credit losses** for 1H2020 totalled €87 mn, broadly flat yoy. The loan credit losses for 2Q2020 totalled €23 mn, compared to €64 mn for 1Q2020 (down by 63% qoq). The 2Q2020 charge included €10 mn reflecting the impact of IFRS 9 Forward Looking Information (FLI) driven by the deterioration of the macroeconomic outlook, as a result of the economic effects of the COVID-19 outbreak (compared to €28 mn for 1Q2020).

The annualised loan credit losses charge (**cost of risk**) for 1H2020 accounted for 1.39% of gross loans, of which 59 bps reflect the deterioration of the macroeconomic outlook in 1H2020 (compared to an annualised loan credit losses charge of 1.34% for 1H2019).

At 30 June 2020, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €2,043 mn (compared to €2,109 mn at 31 March 2020 and €2,096 mn at 31 December 2019) and accounted for 16.4% of gross loans (compared to 16.6% at 31 March 2020 and 16.3% at 31 December 2019). The decrease in the allowance for expected loan credit losses in 2Q2020 amounted to €66 mn, whilst the increase in 1Q2020 amounted of €13 mn.

Impairments of other financial and non-financial assets for 1H2020 amounted to €29 mn, compared to €10 mn for 1H2019 and to €25 mn in 2Q2020, compared to €4 mn in 1Q2020. The increase in 2Q2020 relates mainly to specific, large, illiquid REMU properties.

Provisions for litigation, claims, regulatory and other matters for 1H2020 totalled €4 mn, compared to a reversal of provisions of €3 mn for 1H2019. Provisions for litigation, claims, regulatory and other matters for 2Q2020 totalled €2 mn, at the same levels as for 1Q2020.

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	1H2020	1H2019[1]	2Q2020	1Q2020	qoq +%	yoy +%
(Loss)/profit before tax and non-recurring items	**(12)**	**31**	**6**	**(18)**	-	-
Tax	(5)	0	(3)	(2)	47%	-
Profit/(loss) attributable to non-controlling interests	4	(2)	4	(0)	-	-
(Loss)/profit after tax and before non-recurring items (attributable to the owners of the Company)	**(13)**	**29**	**7**	**(20)**	-	-
Advisory and other restructuring costs – organic	(6)	(10)	(3)	(3)	0%	-39%
(Loss)/profit after tax – organic (attributable to the owners of the Company)	**(19)**	**19**	**4**	**(23)**	-	-
Provisions/net loss relating to NPE sales, including restructuring expenses[2]	(107)	(2)	(104)	(3)	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	-	(21)	-	-	-	-
Reversal of impairment of DTA and impairment of other tax receivables	-	101	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(126)**	**97**	**(100)**	**(26)**	-	-

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

The **tax charge** for 1H2020 is €5 mn, compared to nil for 1H2019. The tax charge for 2Q2020 is €3 mn, compared to €2 mn for 1Q2020.

Loss after tax and before non-recurring items (attributable to the owners of the Company) for 1H2020 was €13 mn, compared to a profit of €29 mn for 1H2019. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 2Q2020 was €7 mn, compared to a loss of €20 mn for 1Q2020.

Advisory and other restructuring costs - organic for 1H2020 amounted to €6 mn, compared to €10 mn for 1H2019. Advisory and other restructuring costs - organic for 2Q2020 amounted to €3 mn, at the same level as for 1Q2020.

Loss after tax arising from the organic operations (attributable to the owners of the Company) for 1H2020 amounted to €19 mn, compared to a profit of €19 mn for 1H2019. Profit after tax arising from the organic operations (attributable to the owners of the Company) for 2Q2020 amounted to €4 mn, compared to a loss of €23 mn for 1Q2020.

Provisions/net loss relating to NPE sales, including restructuring expenses for 1H2020 amounts to €107 mn (compared to €2 mn for 1H2019) and for 2Q2020 amounts to €104 mn (compared to €3 mn for 1Q2020). The amount of €104 mn for 2Q2020 includes mainly the loan credit losses in relation to the anticipated Project Helix 2 agreement of €68 mn and additional loan credit losses of €21 mn as a result of potential further NPE sales in the future. In 4Q2019, loan credit losses of €75 mn were recorded as a result of the anticipated balance sheet de-risking at the time. Restructuring costs relating to NPE sales of €1 mn for 2Q2020 were also included, compared to €3 mn for 1Q2020.

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 1H2019, comprising a loss on remeasurement of investment in associate upon classification as held for sale of €26 mn and a share of profit from associates of €5 mn. In October 2019, the Group completed the sale of its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited (CNP) that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013, for a cash consideration of €97.5 mn.

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)

The **reversal of impairment of DTA and impairment of other tax receivables** totalled €101 mn for 1H2019, comprising the net positive impact of €109 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 30 June 2020 was €5 mn (compared to €5 mn as at 31 March 2020 and 31 December 2019).

Loss after tax attributable to the owners of the Company for 1H2020 was €126 mn, compared to a profit of €97 mn for 1H2019. Loss after tax attributable to the owners of the Company for 2Q2020 was €100 mn, compared to a loss of €26 mn for 1Q2020.

C. Operating Environment

The global economy and certainly the European economy, particularly the southern member states, are now faced with a bleaker prospect in 2020 than initially projected. Economic performance in the first half of the year has been worse than expected and progress towards containing the pandemic has been slower. The International Monetary Fund (IMF), in its summer update released in late June 2020, expects the global economy to contract by 4.9% in 2020 compared with a projected 3.0% contraction in their May 2020 update. The Organisation for Economic Co-operation and Development (OECD) now expects a 6.0% baseline contraction in the year and the European Commission expects the EU to contract by 8.3%. The expected performance of the different countries in the EU varies significantly from a contraction of 5.2% in Denmark to a contraction of 11.2% in Italy.

European Union support

In response to the COVID-19 crisis, the ECB extended its quantitative easing programme and negative interest rates, and introduced additional measures, most importantly the Pandemic Emergency Purchase Programme (PEPP). This programme was initiated in March 2020 with an initial size of €750 bn and has been increased to €1.35 trillion in June 2020 and extended until at least mid-2021. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. The ECB also maintains ample liquidity in the banking system through its refinancing operations, but also by easing the rules around collateral that banks can use in exchange for central bank liquidity. The ECB is strongly committed to preventing financial fragmentation in the eurozone which keeps funding costs low and minimises the risk of a sovereign debt crisis in highly leveraged economies. The ECB is therefore the lender of last resort, but the size of the current crisis requires large scale fiscal intervention by governments and EU-led regional transfers.

In April 2020, the EU introduced a significant fiscal programme totalling €540 bn. This consisted of the European Stability Mechanism (ESM) Pandemic crisis support for €240 bn; the European Investment Bank (EIB) guarantee fund for loans to SMEs for €200 bn; and the SURE employment support for €100 bn.

In July 2020, following three days of intense negotiations, the governments of the 27 member states of the European Union reached an agreement on the initial proposals of the European Commission for a COVID-19 recovery programme. This consists of a €750 bn fund that will be incorporated into the EU's seven-year budget framework 2021-2027. A total of €390 bn will be allotted as grants (instead of the initial proposal for €500 bn grants), and the remaining €360 bn will be allotted as loans. The European Commission will be allowed to borrow from debt markets and will primarily aid southern countries, including Cyprus, hit hard by the pandemic.

Fiscal policy

Cyprus recorded a fiscal surplus of 1.7% of GDP in 2019 which reduced the debt-to-GDP ratio to 95.5% from 100.6% at the end of 2018. The outbreak of the COVID-19 pandemic and the measures introduced to contain it and support companies and employment are expected to push the budget into a substantial deficit. Spending will be significantly higher in the year reflecting the financial support packages, and tax revenues will be lower as a result of the deep recession.

The recovery of Cyprus following the financial crisis in 2013 was relatively solid. Real GDP grew annually at an average pace of 4.4% in 2015-2019. This was primarily driven by gross fixed investment expenditures and the export of services. On the supply side the recovery was broad, driven primarily by construction, manufacturing, trade, tourism, information and communication, and professional services. As a result, total output surpassed its pre-crisis level by about 10% in 2019. In 2020, the Cyprus economy faces the prospect of a deep recession as a result of the COVID-19 crisis. The Commission expects that the Cyprus economy will contract by 7.8% in the year. The recovery in 2021 is expected to be only partial with GDP rising by 5.3% and will thus take longer to restore output to pre-COVID-19 levels.

The Cyprus economy exhibits an over-reliance on the tourism sector which leaves it more exposed than most other countries, to the travel restrictions and quarantine measures adopted in response to the COVID-19 crisis. In the first quarter of the year, with containment measures in place for less than one month, real GDP increased by 0.8% year-on-year, seasonally adjusted compared with an increase of 3.4% respectively the year before. Real GDP in the second quarter dropped by 11.9% as containment measures were in full effect and as there were no tourist arrivals at all in April and May 2020.

The containment measures introduced in response to COVID-19, the consequent loss of income and employment, despite the government's support measures, are expected to affect private consumption. Private consumption is expected to be recovering as the economy will be emerging from the lockdown and confidence improves. Public consumption is expected to increase significantly in the year reflecting the government's substantial fiscal response to the COVID-19 crisis. Fixed investment, which is more sensitive to uncertainty and worsening economic conditions, is expected to drop more steeply as projects get postponed and to recover gradually as the recovery gets underway and projects are revived.

C. Operating Environment (continued)

Fiscal policy (continued)

The biggest hit to economic growth in Cyprus is expected to come from a steep drop in external demand for travel and tourism services and the indirect effects to related sectors including trade, manufacturing and other services. The tourism related sector 'accommodation and food services', accounted for 6% of real gross values added in 2019 and about 11.6% of employment. Total gross tourist receipts amounted to 12.2% of GDP in 2019. Tourist activity in Cyprus is highly seasonal with c.75% of arrivals and receipts occurring in the second and third quarters, when the hit from COVID-19 is expected to be the greatest. In the seven months January-July 2020, total tourist arrivals were down by 85%, compared to the corresponding period the prior year. Likewise, tourist receipts in the six months to June declined by 88% against the same period the year before.

Consumer prices have been moderating in the first half of the year and are expected to continue to moderate in the second half, driven by falling domestic demand and weak global energy prices. As the economy starts to emerge from recession in 2021, and as energy prices start to strengthen, inflation is expected to pick up gradually.

In the external sector the current account deficit widened in 2019 driven by strong domestic demand that increased imports disproportionately. In 2020 the current account deficit is not expected to be significantly altered in comparison with the previous year. The trade balance is expected to narrow sharply reflecting the impact of the recession on imports. The steep decline of travel and transport earnings expected are expected to narrow the services balance, thus offsetting the narrowing of the trade balance.

Banking sector and non-performing exposures

In the banking sector of Cyprus, total loans to residents and non-residents alike, were €32.2 bn at the end of June 2020. This corresponds to 157% of 2020 estimated nominal GDP. Total loans consisted of €6.9 bn to non-residents and €25.4 bn to residents or €25.1 bn excluding the Government. The latter, which include €9 bn in non-performing in March 2020, were c.122% of nominal GDP.

The stock of NPEs declined from €20.9 bn at the end of December 2017 to €10.4 bn as at end-December 2018 after the sale of loans by the Bank (Project Helix) and the resolution of the Cyprus Cooperative Bank. NPEs dropped to €9.1 bn at the end of December 2019 and were marginally lower at €9.0 bn at the end of March 2020. NPEs consisted of €4.6 bn from households and €4.0 bn from non-financial companies mainly SMEs. Financial companies comprised the remaining €0.4 bn.

The ratio of NPEs to gross loans in Cyprus was 27.8% at the end of March 2020 from 28.0% at the end of December 2019 and 30.5% at the end of December 2018. The share of restructured facilities was 44.5% and the coverage ratio stood at 57.3% at the end of March 2020.

Sovereign ratings

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system. Cyprus continues to face high public debt and a large remaining stock of non-performing loans. While the COVID-19 crisis is expected to cause a deep recession near-term reversing some of the gains achieved in previous years, the longer-term outlook remains solid and the impact on the credit profile is expected to be temporary.

Moody's maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. In April 2020 Moody's Investors Service issued an Update on their credit opinion for the Cyprus Sovereign and revised their forecasts for the Cyprus 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. S&P Global Ratings maintains an investment grade rating of BBB- with a stable outlook since September 2018. The rating and the outlook were last affirmed in March 2020. Fitch Ratings maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, last affirmed in April 2020. Its outlook was upgraded to positive in October 2019 and revised it to stable in April 2020, reflecting the significant impact the global COVID-19 pandemic might have on the Cyprus economy and fiscal position.

D. Business Overview

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In July 2020, 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 on the Bank. In June 2019, Moody's Investors Service affirmed the Bank's long-term deposit rating of B3 (positive outlook).

The Group continued to deliver on its strategic priorities while supporting its customers, colleagues and community in which it operates through COVID-19. In light of the gradual reopening of the economy, the Group is ensuring that all of its branches operate as usual and in accordance with the guidelines and recommendations issued by the Ministry of Health.

Additionally, the Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. There have been early signs of recovery in the Cypriot economy, but the outlook remains highly uncertain and the impact of lower rates and economic fragility will continue for at least the rest of the year. More specifically, there continues to be much uncertainty related to COVID-19, in particular, the risk of a second wave and the timeline for a vaccine to become widely available. As a result, the longer-term impacts of COVID-19 on the economy and the Group's financial performance remain uncertain.

The changed economic environment has resulted in lower levels of economic activity and credit formation. In common with other European banks, the prolonged low interest rate environment also continues to present a challenge to the Group's profitability. As a consequence of the pandemic, the Bank has updated its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses in 1H2020 in line with the relevant regulatory guidance, resulting in increased organic loan credit losses for 1H2020 of €38 mn. While further improvement in economic activity is expected in the second half of 2020, the Bank continues to expect, under the base scenario, the Cypriot economy to contract by 6.3% in 2020, with gradual recovery from 2021 onwards, with GDP growth of 5.6% for 2021. The Bank's projections are in line with those published by the IMF, the Cyprus Ministry of Finance, the EBRD, the European Commission and the Economics Research Centre of the University of Cyprus.

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

Upon the outbreak of COVID-19 in March 2020, the Pandemic Incident Management Plan (PIMP) of the Group was invoked and a dedicated team has been monitoring the situation domestically and globally and providing 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 for supporting the economy, such as supporting viable affected businesses and households with new lending to cover liquidity, working capital, capital expenditure and investment purposes related to the activity of the borrower.

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

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.

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal 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. As at 30 June 2020, over 25,000 customers were approved, relating to c.€6.0 bn gross loans (comprising gross loans to individuals of €2.1 bn and gross loans to businesses of €3.9 bn), representing 66% of total gross loans excluding legacy. The Group continues to monitor the creditworthiness of all customers who applied for the loan moratorium.

The individual assessment of businesses under moratorium was initiated in May 2020, with an initial focus on high risk customers. The 30 largest businesses under moratorium comprise nearly half of all business loans under moratorium and amount to €1.7 bn. Over 70% of these have already been reviewed without triggering a change in the unlikely to pay criterion (UTP). In addition, c.9% of businesses under moratorium have paid at least one instalment by 30 June 2020.

D. Business Overview (continued)

The individual assessment of private individuals under moratorium has also commenced with priority to individuals with low credit scoring and employed in high risk industries, such as tourism. In addition, c.25% of private individuals under moratorium have paid at least one instalment by 30 June 2020.

The strategic focus of the Group on asset quality, funding, capital and efficiency aims to ensure that it maintains its financial strength.

Tackling the Bank's loan portfolio quality is of utmost importance for the Group. Despite the challenging market conditions resulting from the outbreak of COVID-19, the Group reached agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn related to non-performing exposures) as at 30 June 2020, known as Project Helix 2, another significant disposal of NPEs by the Bank. The combined de-risking actions in the first six months of 2020, including Project Helix 2, have reduced NPEs by €1.3 bn. Overall, since the peak in 2014, the stock of NPEs has been reduced by €12.4 bn or 83% to €2.6 bn and the NPE ratio is reduced to 22%.

Project Helix 2 marks further progress against delivering on the Group's strategic objectives of becoming a stronger, safer and more efficient institution. The Group is now better positioned to manage the challenges resulting from the impact of the ongoing COVID-19 crisis, and to support the recovery of the Cypriot economy.

The Group remains committed to further de-risking of the balance sheet and it will continue to seek solutions, both organic and inorganic to achieve this. The Group will continue to assess the potential to accelerate the decrease in NPEs on the balance sheet through additional sales of NPEs in the future. At the same time, following the outbreak of COVID-19 the Group will remain focused on arresting any potential asset quality deterioration and early managing arrears.

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. Following recent developments, the Supreme Court ruled that the foreclosure amendments voted by the Parliament in July 2019 are constitutional and were passed into law in June 2020. Following the outbreak of COVID-19, the foreclosure process has been suspended until 31 August 2020, in line with the latest decision of the Association of Cyprus Banks.

The Group continues to provide high quality new loans via prudent underwriting standards and 98% of new exposures in Cyprus since 2016 are performing. During the quarter ended 30 June 2020, new lending amounted to €238 mn, reduced by 47% qoq reflecting the COVID-19 lockdown. 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, and following the outbreak of COVID-19, the focus remains to support the Cypriot economy in order to overcome this crisis. The demand for new lending is expected to pick up in 2H2020, especially for new housing loans in the context of the Government scheme for interest rate subsidy. The pipeline for new housing loans is strong at over €65 mn as at 21 August 2020.

Following the outbreak of COVID-19, the sectors most adversely affected are tourism, trade, transport and construction. The Group has a well – diversified performing loan portfolio. As at 30 June 2020, the Group's non-legacy loan book exposure to tourism was limited to €1.1 bn, out of a total non-legacy loan book of €9.1 bn. Respectively, the Group's non-legacy loan book exposure to trade was also €1.0 bn, whilst to construction was limited to €0.5 bn.

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 (GIC) 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 1H2020 amounted to €29 mn, down by 4% yoy, contributing to 24% 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 68 bps to 8 bps over the last 30 months, and the reduction is expected to continue. The reduction in the cost of deposits amounts to 8 bps in 1H2020, compared to a reduction of 17 bps in 1H2019.

D. Business Overview (continued)

In addition, there are efforts underway to improve credit spreads, despite competition pressures. Moreover, liquidity fees for specific customer groups were introduced in March 2020. The introduction of liquidity fees to a broader group of corporate clients, that was delayed due to the COVID-19 pandemic, is under consideration, once allowed by market conditions. In August 2020 the Ministry of Finance issued three decrees, setting a limit on charges and fees charged in a calendar year to accounts with certain characteristics and for certain transactions. The review of fees and commission charges is underway, whilst transactional fee volumes are expected to recover to pre-COVID-19 levels, as the Cypriot economy continues to recover. Finally, in June 2020, the Bank borrowed €1 bn from the fourth TLTRO III operation, despite its comfortable liquidity position, given the favourable borrowing rate, in combination with the relaxation of collateral terms. The annual potential benefit to the net interest income is estimated at €5 mn.

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 4Q2019, 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. 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, to enhance self-service functionalities. Users can now retrieve a forgotten user id, set a new passcode in case they forgot their old one and activate their subscription without having to contact the bank. Additionally, users can now purchase a Digipass through the mobile app, a verification instrument that allows them to perform a variety of transactions securely. Moreover, customers can now register for a subscription to the Bank's digital channels without having to fill in a physical form or visit a branch. Integration with modern payment solutions has been made easier as users can now add their Visa cards to the BoC Wallet (Android) and the Apple Pay (iOS) through the mobile banking app directly. Likewise, Visa cardholders are now able to make secure and fast payments through their Garmin smartwatch (Garmin Pay) without having to carry their mobile phone. Finally, eligible subscribers for QuickPay (new users) are now prompted at login to set up the QuickPay default account.

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.

The adoption of digital products and services continued to grow and gain momentum in 2019. As at the end of 2019, 78% 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, and by a further 13% in the seven months to the end of July 2020.

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 July 2020, 72% of customers were digitally engaged (up by 12 p.p. from 60% since the digital transformation programme was initiated in September 2017). A further increase is expected in 3Q2020 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 and on a fast track basis until the end of September 2020, the provision of SMS Digipass devices free of charge, and the ability for new customers to apply for account opening via the Bank's website.

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

In addition, the Bank has taken the necessary actions to enable customers to purchase Qualified Digital Signature certificates, which can be used to digitally sign Bank, Government as well as any other document that requires a signature, eliminating the need for physical presence and enhancing the customer experience. It should be noted that the Bank is one of the first banks in Europe to offer a fully digital application process to acquire a Qualified Digital Signature certificate.

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.

E. Strategy and Outlook

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

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

- **Reduce the level of delinquent loans, arrest any asset quality deterioration and early manage arrears resulting from the outbreak of COVID-19**
- 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 1H2020 and 2019	PLAN OF ACTION *
1. Reduce the level of delinquent loans, arrest any asset quality deterioration and early manage arrears resulting from the outbreak of COVID-19	• 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. • Continue to closely monitor the creditworthiness of customers under moratorium with priority to high risk customers
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 to a broader group of corporate clients, that was delayed due to the COVID-19 pandemic, under consideration, once allowed by market conditions

E. Strategy and Outlook (continued)

KEY PILLARS	ACTION TAKEN IN 1H2020 and 2019	PLAN OF ACTION *
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 and improving lending yields, despite competition pressures • 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 8 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

** For further information relating to the "Plan of Action" please refer to Section D. 'Business Overview'.*

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. The gradual easing of the restrictive measures has led to increased economic activity, however uncertainty remains, in particular the risk of a second wave and the timeline for a vaccine to become widely available. As a result, the longer term impacts of COVID-19 on the economy and the Group's financial performance remain uncertain.

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 has updated its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for 1H2020 in line with the relevant regulatory guidance, resulting in increased organic loan credit losses for 1H2020 of €38 mn.

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

F. Definitions & Explanations

Advisory and other restructuring costs	Comprise mainly: fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities.
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprises (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities, and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 fully loaded (FL)	The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Contribution to DGF	Relates to the contribution made to the Deposit Guarantee Fund.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service	The latest data from the Statistical Service of the Republic of Cyprus, Cyprus Statistical Service, was published on 21 August 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. Digitally engaged customers are the individuals who use the digital channels of the Bank (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard.
ECB	European Central Bank
Gross loans	Gross loans 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 €248 mn at 30 June 2020 (compared to €252 mn at 31 March 2020 and €271 mn at 31 December 2019). Additionally, gross loans include loans and advances to customers classified and measured at fair value through profit and loss adjusted for the aggregate fair value adjustment of €331 mn at 30 June 2020 (compared to €328 mn at 31 March 2020 and €427 mn at 31 December 2019).
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or the "Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries.
Legacy exposures	Legacy exposures are exposures relating to (i) Restructuring and Recoveries Division (RRD), (ii) Real Estate Management Unit (REMU), and (iii) non-core overseas exposures
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.

F. Definitions & Explanations (continued)

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

F. Definitions & Explanations (continued)

Non-performing exposures (NPEs)	According to the EBA standards and ECB's Guidance to Banks on Non-Performing Loans (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 'Consolidated Condensed Interim Income Statement – Underlying basis' relate to the following items, as applicable: (i) advisory and other restructuring costs - organic, (ii) restructuring costs – Voluntary Staff Exit Plan (VEP), (iii) Provisions/net loss relating to NPE sales, including restructuring expenses, (iv) Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates, and (v) Reversal of impairment of DTA and impairment of other tax receivables.
NPE coverage ratio (previously 'NPE Provisioning coverage ratio')	The NPE coverage ratio is calculated as the allowance for expected loan credit losses (as defined) over NPEs (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).
NPE sales	NPE sales refer to sales of NPE portfolios completed in each period and contemplated sale transactions, as well as potential further NPE sales, at each reporting date, irrespective of whether or not they met the held for sale classification criteria at the reporting dates. They include both Project Helix and Project Helix 2, as well as other portfolios.
Operating profit	Comprises profit before Total loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined).
Profit/(loss) after tax – organic (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined, except for the 'advisory and other restructuring costs – organic').
Project Helix	Project Helix refers to the sale of a portfolio of loans with a gross book value of €2.8 bn completed in June 2019. For further information please refer to section B.2.5 Loan portfolio quality.

F. Definitions & Explanations (continued)

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

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or "the Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" or "BOC PCL", and together with the Bank's subsidiaries, the "Group", for the six months ended 30 June 2020.

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

Financial information presented in this announcement is being published for the purposes of providing an overview of the Group financial results for the six months ended 30 June 2020. 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, were published on 29 April 2020 and are expected to be 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 six months ended 30 June 2020 on 27 August 2020.

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

Underlying basis: The statutory results are adjusted for certain items (as described on page 9) to allow a comparison of the Group's underlying performance, as set out on pages 6-8.

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

The Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2020 have not been audited by the Group's external auditors. The Group's external auditors have conducted a review of the Consolidated Condensed Interim Financial Statements in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity (UK & Ireland)'.

The **Interim Financial Report 2020** is available at the Bank of Cyprus Holdings Public Limited Company Office (51, Stassinos Street, Ayia Paraskevi, P.O. Box 24884, 1398, Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

This announcement and the presentation for the Group Financial Results for the six months ended 30 June 2020 have been posted on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

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

The Group Financial Results for the six months ended 30 June 2020 are presented in Euro (€) and all amounts are rounded as indicated. A comma is used to separate thousands and a dot is used to separate decimals.

Forward Looking Statements

This document contains certain forward-looking statements which can usually be identified by terms used such as “expect”, “should be”, “will be” and similar expressions or variations thereof or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Group’s near term 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 98 branches in Cyprus, of which 14 operate as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 3,579 staff worldwide. At 30 June 2020, the Group’s Total Assets amounted to €21.4 bn and Total Equity was €2.1 bn. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.