Interim Pillar 3 disclosures

Appendix II - Environmental, Social and Governance Risks

2024

Bank of Cyprus Holdings

BANK OF CYPRUS HOLDINGS GROUP
Interim Pillar 3 Disclosures 2024 – Appendix II

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1. Environmental risk

1.1. Business strategy and processes

1.1.1. Business strategy to integrate environmental factors and risks

The Group's approach to climate action is evolving over time and has progressively been embedded into the Group's activities and actions. Consequently, the Group focuses on creating lifelong partnerships with customers, as well as guiding and supporting them in a changing world by financing projects which bear a positive climate impact. Underpinning the Group's Climate Strategy (a pillar within its ESG strategy), there are three strategic areas where, moving forward, the Group will focus our climate action:

i. Reinforcing the impact of climate financing;
ii. Building resilience to climate change; and
iii. Further integrating climate change considerations across all of Group's standards, methods and processes.

The commitments made by the Group in its ESG Strategy focus on the following key objectives:

i. Become carbon neutral by 2030;
ii. Become Net Zero by 2050;
iii. Steadily increase Green Asset Ratio; and
iv. Steadily increase Green Mortgage Ratio.

In supporting the net zero commitments, the Group's Scope 1, Scope 2 and material non-Financed Scope 3 GHG emissions were calculated for 2021 (baseline), using a widely accepted methodology and bringing the Group in a position where it can set a feasible roadmap of actionable tasks to reduce its carbon footprint and achieve its decarbonisation goals.

Given the fact that BOC PCL is the main contributor of GHG emissions of the Group, BOC PCL has formulated a decarbonisation plan to reduce its own carbon footprint relating to Scope 1 and Scope 2 GHG emissions and ultimately reach its Carbon Neutral target by 2030.

For the Group to reach carbon neutrality by 2030, Scope 1 and Scope 2 GHG emissions should be reduced by 42% by 2030 compared to 2021 baseline. The decarbonisation target on Scope 1 and Scope 2 is monitored through the Sustainability Performance Report on a quarterly basis by the SC, EXCO and Board Committees.

BOC PCL plans to invest in energy efficient installations and actions and replace fuel intensive machineries and vehicles from 2024 to 2025, which would lead to c.3-4% reduction in Scope 1 and Scope 2 GHG emissions by 2025 compared to 2021. The Group expects that the Scope 2 GHG emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The Group is also considering several other actions aiming to a further reduction of c.30% in Scope 1 and Scope 2 GHG emissions by 2030 compared to 2022. The actions planned by BOC PCL between 2024 to 2025 include:

i. Air-conditioning systems replacements
ii. Boiler replacements
iii. Roof insulation
iv. CO_2 sensors installation
v. Heat recovery installation

Similar energy efficiency actions are planned for the other operating subsidiaries of the Group.

1.1.1. Business strategy to integrate environmental factors and risks (continued)

Currently the Group does not plan to set specific targets for the material non-Financed Scope 3 GHG emissions as the vast majority of its Scope 3 GHG emissions relate to Financed Scope 3 GHG emissions.

Apart from the strategy to reduce GHG emissions associated with its own operations, BOC PCL should design the strategy to reduce GHG emissions associated with its loan portfolio (i.e. customers) and investment portfolio which effectively will lead to less exposure to C&E risks. Therefore, BOC PCL became a member of the PCAF and estimated GHG emissions derived from its loan, investment and insurance portfolio based on PCAF standard and proxies. BOC PCL is integrating C&E risks into its Business Strategy through the following:

1. Sector limits;
2. Decarbonisation targets;
3. Green/Transition Lending;
4. ESG and Climate considerations in loan pricing.

Sector Limits

Certain sectors are inherently associated with higher transition risks due to the fact that their current operating model is not considered sustainable under a low carbon economy. The fact that the current and prospective regulatory environment is driving us towards that direction, indicates that the entities, operating in carbon intensive sectors, might fail to adopt. Failure to adopt might impact customer's profitability, liquidity, creditworthiness and ultimately their sustainability in the longer term. In order to manage transition risks and be aligned with Net Zero commitment, BOC PCL established certain sector lending limits to restrict its exposure to sectors which are widely considered as carbon intensive sectors (i.e. cement, oil, gas, iron, steel, aluminium and power generation through fossil fuels). The role of BOC PCL is to engage with the customers operating in carbon intensive sectors, in order to educate them on the C&E risks that are exposed and support them in the transition to low carbon economy by providing them Green or transition financing. The sector limits are not applicable to Green or Transition financing or to entities, operating in carbon intensive sectors, with an externally validated transition plan so to motivate and support the customers to their transition to a low carbon economy. The abovementioned sector limits have been reflected in the BOC PCL Concentration Policy.

Decarbonization targets

BOC PCL by taking into account the MA performed on C&E risks, the available methodologies to estimate Financed Scope 3 GHG emissions and Insurance associated GHG emissions as well as the available methodologies to set decarbonisation targets on certain sectors and asset classes aligned with a climate scenario, determined to set decarbonisation target on its Mortgage portfolio. Following the establishment of the decarbonisation target on Mortgage portfolio BOC PCL designed the strategy to meet the target and align its Mortgage portfolio with the International Energy Agency's ('IEA') Below 2 Degree Scenario ('B2DS') by aiming to finance more energy efficient residential properties. BOC PCL designed and introduced a "Green Housing" product, aligned with Green Loan Principles ('GLP') of Loan Market Association ('LMA'), in order to support the feasibility of the decarbonisation target. The decarbonisation target on Mortgage portfolio and the new lending strategy to meet the target have been incorporated in the Group's Financial Plan for 2024-2027.

The Group is also examining to set decarbonisation target on Commercial Real Estate ('CRE') asset class as well as on Transportation and Storage business loan sector of loan portfolio, within 2024.

1.1.1. Business strategy to integrate environmental factors and risks (continued)

Green/Transition Lending

BOC PCL, by taking into account the results of BES and the materiality assessment on C&E risks, has set Green / Transition new lending targets for 2024 in order to support the transition of its customer and Cyprus to a low carbon economy and limit its exposure to transition risks in certain sectors. Specifically, BOC PCL by taking into account the results of the MA on C&E risks, the expected Green taxations in Cyprus, the amendments adopted by the European Parliament on 14 March 2023 on the proposal for a directive of the European Parliament and of the Council on the energy performance of buildings as well as the Cyprus Government subsidies has set Green / Transition new lending targets on specific sectors (i.e., Manufacturing, Trade, Construction and Accommodation) to enable the Green transition. The Green/Transition new lending targets have been included in the Group's Financial Plan for 2024 – 2027 and monitored on a monthly basis by the Business Development Committee ('BDC') of the Group. Taking into account that the Green/Transition new lending targets are incorporated for the first time in the Financial Plan of the Group, those comprise of c.10% of total new lending projections for 2024 of Corporate & SME Division. Green / Transition new lending is expected to increase in the upcoming years given the maturity of the market in climate spectrum.

In addition, BOC PCL offers a range of environmentally friendly products to manage transition risk and help its customers become more sustainable. For example, a number of loan products are offered under the Fileco Product Scheme. BOC PCL offers Environmentally friendly Car Hire Purchase addressed to anyone who wants to buy a new hybrid or electric car, providing its customers the opportunity to buy a new electric vehicle and to move away from transport options reliant on fossil fuels. Moreover, an environmentally friendly loan for home renovation is offered to customers who want to renovate and upgrade the energy efficiency of their privately owned primary residence or holiday home and achieve a higher energy efficiency rating. Further, the customers may benefit from an Energy Loan for the installation of energy saving systems for home use. This product is addressed to customers who seek financing for the installation of photovoltaic systems for home use and other home energy saving systems. At the end of 2023, BOC PCL launched the "Green Housing" product, aligned with GLPs of LMA, in order to support the decarbonisation of residential properties in Cyprus, ensure the feasibility of the decarbonization target and effectively being exposed to lower level of transition risks. Looking forward, in 2024 the Group will continue to build out its green product offering further.

Following the setup of the Sustainable Finance Framework in 2023, BOC PCL, in 2024, issued a €300 million green senior preferred notes under the EMTN programme in line with the Group's Beyond Banking approach, aimed at creating a stronger, safer and future-focused bank and leading the transition of Cyprus to a sustainable future. An amount equivalent to the net proceeds of the Notes will be allocated to Eligible Green Projects as described in BOC PCL's Sustainable Finance Framework, which include Green Buildings, Energy Efficiency, Clean Transport and Renewable Energy.

ESG and Climate considerations in loan pricing

In addition, BOC PCL is recognizing the importance of promoting sustainability in its lending practises, so it has developed a comprehensive plan aiming to integrate ESG and climate factors into its loan pricing framework to ensure a long-term sustainable growth. The plan has two main phases, the Transition phase and the Long-term phase.

1.1.1. **Business strategy to integrate environmental factors and risks** (continued)

Transition phase:

BOC PCL performed market research to identify the best practices to incorporate ESG and climate considerations in the loan pricing. Following the market research, BOC PCL introduced margin discounts by taking into account the customer’s ESG score and the transaction eligibility under Green Lending Framework. Essentially, a margin discount, based on the client’s ESG and climate impact, will be implemented for both new and existing clients on new lending requests, for all clients (all sectors) under Corporate Division, differentiating however between carbon-intensive vs non-carbon intensive sectors. BOC PCL linked the margin discount at the client level to the borrower's “E” scoring (extracted from borrower’s “ESG” score). In addition, BOC PCL linked the margin discount at the transaction level (i.e. whether lending is Green or not) utilizing the provisions of the BOC PCL's Green Lending Framework.

Long-term phase:

BOC PCL has developed a longer-term plan for undertaking the necessary activities and analysis that will allow for a structured approach to incorporate ESG and climate factors in the Lending Pricing Policy and Lending Pricing Framework pricing components and where necessary associate pricing with defined KPIs. The plan is divided into four distinct phases, each with specific objectives and activities designed to ensure successful integration:

a. Inception: the objectives are to develop an ESG and climate Pricing strategy that is aligned with the BOC PCL's values, objectives, and risk appetite. Specifically, BOC PCL envisages to set the Strategic direction to be followed and how this will accommodate the balance between the Strategic View Pricing approach and Risk View Pricing approach.
b. Preparation: the objectives are to undertake a feasibility analysis in relation to which pricing components are the most prominent to analyse in terms of adjusting them to reflect any ESG and climate considerations as well as to further specify the roles and responsibilities of each unit for ESG and climate integration in loan pricing.
c. Development: The Development phase of the ESG and climate pricing strategy plan is divided into two parts: the Risk View and the Strategic View. Under the Risk View, the Bank aims to conduct analysis and assessment of various ESG and climate factors to determine their relevance and importance and prioritize them for inclusion in the pricing framework, in conjunction with the outcome of the feasibility analysis. Under the Strategic View, BOC PCL aims to start defining pre-requisites that will allow, upon a more mature state, to enhance its approach on strategic view to be more holistic than the one implemented on Transition phase.
d. Implementation: the objective is to perform the necessary actions to implement the selected approach of incorporating ESG and climate considerations in pricing components so to become business-as-usual.

Principles for Responsible Banking (PRB)

In September 2022, BOC PCL voluntarily conducted an impact analysis, using its loan portfolio, in accordance with the PRB’s impact analysis tools. In October 2023, BOC PCL has become the first Bank in Cyprus to sign the United Nations PRB which is a single framework for a sustainable banking industry, developed through a collaboration between banks worldwide and the United Nations Environment Programme Finance Initiative (‘UNEP FI’).

1.1.1. Business strategy to integrate environmental factors and risks (continued)

The principles are the leading framework for ensuring that banks' strategies and practices align with the vision society has set out for its future in the UN Sustainable Development Goals and the Paris Climate Agreement. BOC PCL, by signing the principles, commits to be ambitious in its sustainability strategy, working to embed sustainability into the heart of its business, while allowing the Bank to remain at the cutting-edge of sustainable finance.

Under the Principles, BOC PCL should identify and measure the environmental and social impact resulting from its business activities, set and implement targets where it has the most significant impact, and regularly report publicly on their progress. BOC PCL has already measured its environmental and social impact by voluntarily applying the PRB's impact analysis tools in order to identify and report on the material impacts arising from its business activities (i.e. loan portfolio). The material impacts identified have been reported in the Sustainability report of 2023. The next step for BOC PCL is to set at least two targets associated with the PRB's impact areas which can have the most significant impact. For BOC PCL the two key impact areas are Climate Stability and availability, accessibility, affordability & quality of resources and services. BOC PCL has set, in 2023, a decarbonization target on Mortgage portfolio which reflects the first SMART target set on loan portfolio for the Climate stability impact area. For the performance against the decarbonization target on Mortgage refer to Section 1.1.2 Objective, targets and limits. BOC PCL is expected to set SMART target on availability, accessibility, affordability & quality of resources and services impact area in 2024.

Signatories to the Principles take on a leadership role, demonstrating how banking products, services and relationships can support and accelerate the changes necessary to achieve shared prosperity for current and future generations, building a positive future for both people and the planet. These banks also join the world's largest global banking community focused on sustainable finance, sharing best-practice and working together on practical guidance and pioneering tools of benefit to the entire industry.

The endorsement of the PRB by BOC PCL, is fully aligned with and reinforces our strategic priority to become a market leader for sustainable banking and lead the transition of Cyprus to a sustainable future. We aim not only to deliver financial but also environmental and social value to our stakeholders. As such, our approach is multidimensional: to maintain our leading role in supporting Cypriot society; to implement our commitments to these Principles through effective governance and a culture of responsible banking; to reduce our own environmental footprint as well as supporting our customers to reduce their GHG emissions and to continue supporting our staff by providing training and upskilling opportunities as well as staff wellness initiatives.

BOC PCL is committed to the following principles:

1. Alignment: BOC PCL will align its business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.
2. Impact & Target Setting: BOC PCL will continuously increase its positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, BOC PCL will set and publish targets where it can have the most significant impacts.
3. Clients & Customers: BOC PCL will work responsibly with its clients and its customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

1.1.1. Business strategy to integrate environmental factors and risks (continued)

4. Stakeholders: BOC PCL will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.
5. Governance & Culture: BOC PCL will implement its commitment to these Principles through effective governance and a culture of responsible banking.
6. Transparency & Accountability: BOC PCL will periodically review its individual and collective implementation of these Principles and be transparent about and accountable for its positive and negative impacts and its contribution to society's goals.

As a means to enhance not only its ESG and climate risk framework but also its ability to identify future opportunities BOC PCL has introduced new ESG questionnaires within its credit granting process. For more details on ESG questionnaires refer to Section 1.3 Risk Management.

Group Financial and Business Plan

The Group enhanced the Group Financial and Business Plan manual to ensure the incorporation of C&E risks and considerations in the Business Strategy. Specifically, during the planning phase of new lending the RMD and Investor Relations and ESG Department (IR&ESG) provides the sectors associated with C&E risks, the preliminary impact assessment derived from BES process, science-based targets (GHG emission reduction targets aligned with a climate scenario) set and the direction of Green/Transition new lending based on BES. In addition, each Division, taking into account the preliminary impact assessment (performed by RMD, IR&ESG and Strategy) on risk profile and strategy arising from the BES on C&E risks as well as the Materiality Assessment (MA) on C&E risks, identifies which are the material C&E risks over the Financial plan period and defines the actions, strategies and products to mitigate the C&E risks identified. IR&ESG department ensures the adequacy, relevance and reasonableness of the business lines strategies to manage material C&E risks on the main portfolios.

Business Environment Scan (BES)

BOC PCL, in 2023, established a structured and detailed process, with clear roles and responsibilities, to gather a broad range of updates and developments, both internal and external, and link them with sectors/industries and products/services so to assess their impact, across different time horizons, and identify C&E risks emerging from these updates and developments and inform BOC PCL's risk and strategic profile.

The BES process facilitates the ongoing monitoring of potential impacts of C&E risks on its business environment across short-, medium- and long-term time horizons. This process involves the systematic monitoring of various news, updates, and developments, including regulatory developments, macroeconomic trends, competitive landscape, technological trends, as well as societal demographic developments and geopolitical updates. As part of the process, BOC PCL collects external information, on a monthly basis, from various sources, such as news articles, publications, policy and regulatory updates, as well as internal information such as strategy updates, process changes and other relevant internal documentation.

The identified developments are then mapped to the relevant business lines, sectors/industries and portfolios that might be impacted, as well as to specific products/services, where applicable. Developments are further assessed in terms of their relevance across the various time horizons, and preliminary impact scores are assigned based on the expected effect on the BOC PCL's risk and strategic profile. Scores range from 0 (No impact) to 5 (Critical impact).

1.1.1. Business strategy to integrate environmental factors and risks (continued)

BOC PCL has established a dynamic interaction between the BES and the MA to ensure that the insights from both exercises continually inform and enhance each other, fostering a more robust and effective C&E risks management and control.

BOC PCL has performed the first round of the BES and analysed recent regulatory and market updates, relevant to BOC PCL's business. The results of the first run of the BES have been considered and informed the MA and Business Strategy, particularly developments which have been classified as having a "High" or "Critical" impact.

The preliminary impact assessment of key updates and developments on risk profile and strategy is conducted and reported to the Sustainability Committee and Executive Committee on a quarterly basis. The final impact assessment of key updates and developments on risk profile and strategy is conducted and presented to the Sustainability Committee, Executive Committee, Nominations and Corporate Governance Committee and Risk Committee on an annual basis.

BOC PCL established also a BES working group with specific responsibilities assigned to Compliance Division, Risk Management Division and Strategy Department so to collectively perform the impact assessment arising from key updates and developments on risk profile and strategy.

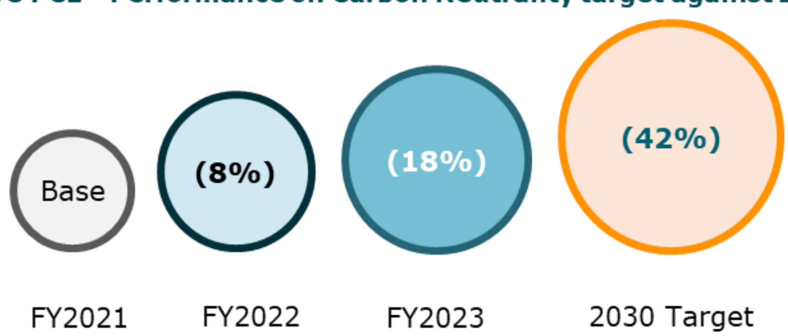
1.1.2. Objectives, targets and limits

The Group in its ESG Strategy focus on the following key objectives:

i. Become carbon neutral by 2030;
ii. Become Net Zero by 2050;
iii. Steadily increase Green Asset Ratio; and
iv. Steadily increase Green Mortgage Ratio.

The Group has estimated the Scope 1 and Scope 2 GHG emissions of 2021 relating to own operations in order to set the baseline for carbon neutrality target. For the Group to meet the carbon neutrality target, the Scope 1 and Scope 2 GHG emissions should be reduced by 42% (absolute target) by 2030. The absolute reduction target has been set following the International Energy Agency's Below 2 Degree Scenario (IEA B2DS). BOC PCL in 2022, designed the plan of actions to meet the carbon neutrality target by 2030 and progress towards Net Zero target of 2050. The Group is designing the decarbonization strategy for the reduction of Scope 1 and Scope 2 GHG emissions of its subsidiaries.

BOC PCL - Performance on Carbon Neutrality target against baseline of 2021



1.1.2. Objectives, targets and limits (continued)

BOC PCL's efforts in 2022 and 2023 lead to the reduction in Scope 1 and Scope 2 GHG emissions by 2,189 tCO_2e in 2023 compared to 2021 which represents c.18% reduction. BOC PCL during the six months ended 30 June 2024 achieved a further reduction of c.6% in Scope 1 and Scope 2 GHG emissions compared to 30 June 2023.

For the purpose of the calculation of the 2021, 2022, 2023 and 2024 Carbon footprint, the Group has set its organisational boundaries based on the operational control approach. The 2021, 2022, 2023 and 2024 carbon footprint for Scope 1 and Scope 2 GHG emissions was estimated based on the methodologies described in the Greenhouse Gas Protocol (GHG Protocol) and ISO14064-1:2019 standard. The Group's own carbon footprint will continue to be calculated on an annual basis which will enable comparisons to be made and progress against decarbonisation targets to be monitored.

Following the implementation of energy efficiency actions in 2022 and 2023 the Group achieved c.16% reduction in Scope 1 and Scope 2 GHG emissions, in 2023 compared to 2021. At the end of 2022 and early in 2023, BOC PCL has installed solar panels to four owned buildings leading to reduction in Scope 2 GHG emissions in 2023 and 2024. BOC PCL has formulated a plan of action to reduce Scope 1 and Scope 2 GHG emissions and meet carbon neutrality target by 2030 and plans to invest further in energy efficient installations and actions and replace fuel intensive machineries and vehicles from 2024 to 2025, which would lead to c.3-4% reduction in Scope 1 and Scope 2 GHG emissions by 2025 compared to 2021. The Group expects that the Scope 2 GHG emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The Group is also considering several other actions aiming to a further reduction of c.30% in Scope 1 and Scope 2 GHG emissions by 2030 compared to 2022.

A number of carbon reduction initiatives are already underway and contribute to the reduction of carbon footprint in the immediate future. These energy and waste initiatives include:

i. implementation of Energy Management system;
ii. installation of electric chargers for cars;
iii. improvement of waste measurement;
iv. increase initiatives for waste recycling; and
v. reduction of paper use.

BOC PCL also aims to increase the utilisation of renewable energy in own operations year on year. BOC PCL, in 2023, following the installation of solar panels to four owned buildings produced and consumed 285,907 kwh, which are 65% higher compared to 173,583 kwh produced and consumed in 2022. BOC PCL achieved c.16% increase in the utilisation of renewable energy in own operations during the six months ended 30 June 2024 compared to 30 June 2023.

BOC PCL being aligned with its ambition to reduce paper consumption achieved c.5% reduction in number of papers printed in its operations during the six months ended 30 June 2024 compared to 30 June 2023.

The Group joined the Partnership for Carbon Accounting Financials (PCAF) in October 2022 and is following the recommended methodology for the estimation of the Financed Scope 3 GHG emissions. The Group has estimated Financed Scope 3 GHG emissions relating to the loan portfolio based on PCAF standard and proxies for 2022 and 2023. The PCAF Standard has been reviewed by the GHG Protocol and conforms with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard for category 15 investment activities.

1.1.2. Objectives, targets and limits (continued)

In addition, PCAF provides a data quality ranking for the estimation of Financed Scope 3 GHG emissions based on data applied in the estimation for each asset class. The scale is between 1-5 with 1 being the highest quality and 5 being the lowest quality. The Group aims to continuously enhance the data quality used on the estimation of Financed Scope 3 GHG emissions and eliminate the data gaps, therefore in 2023 a client questionnaire has been launched to gather the relevant data, where possible, as well as continue to enhance the loan origination process. BOC PCL has already established a policy in the loan origination process to gather Energy Performance Certificates (ratings and GHG emissions per square meters) for the financed properties and collateral properties. Additional data gathering actions are performed in 2024 in line with the established ESG and Climate Data Gap & Strategy.

For the estimation of Financed Scope 3 GHG emissions relating to the lending portfolio, the loan portfolio was classified in the following PCAF asset classes which will facilitate the setting of decarbonisation targets in the future:

PCAF Asset class	Definition
Business loans	Business loans include all loans and lines of credit for general corporate purposes (i.e., with unknown use of proceeds as defined by the GHG Protocol) to businesses, non-profits, and any other structure of organisation that are not traded on a market and are on the balance sheet of the financial institution. Revolving credit facilities, overdraft facilities, and business loans secured by real estate such as Commercial Real Estate-secured lines of credit are also included. Any off-balance sheet loans and lines of credit are excluded.
Commercial Real Estate (CRE)	This asset class includes on-balance sheet loans for specific corporate purposes, namely the purchase and refinance of commercial real estate (CRE), and on-balance sheet investments in CRE. This definition implies that the property is used for commercial purposes, such as retail, hotels, office space, industrial, or large multifamily rentals. In all cases, the building owner or investor leases the property to tenants to conduct income-generating activities.
Mortgages	This asset class includes on-balance sheet loans for specific consumer purposes namely the purchase and refinance of residential property, including individual homes and multifamily housing with a small number of units. This definition implies that the property is used only for residential purposes and not to conduct income-generating activities.
Motor vehicles	This asset class refers to on-balance sheet loans and lines of credit for specific (corporate or consumer) purposes to businesses and consumers that are used to finance one or several motor vehicles. Corporate loans for acquisition of vehicles for trade purposes were classified as 'Business Loans'.

The Financed Scope 3 GHG emissions are disclosed in ESG Template 1 tab.

The Group by taking into account the GHG emissions estimated for loan portfolio, the most significant loan exposures and the MA on C&E risks, it has decided to set a decarbonization target on Mortgage portfolio. To limit global warming to 1.5°C above preindustrial levels (Paris Agreement and EU Green Deal), all sectors of society need to decarbonize and collectively reach net-zero emissions by 2050. The transition to low carbon economy triggers transition risks, therefore BOC PCL has set decarbonization target on Mortgage portfolio in order to be aligned with its Net Zero ambition and manage transition risk by directing its lending to more energy efficient residential buildings.

1.1.2. Objectives, targets and limits (continued)

The Group has estimated the GHG emissions per square meter, as at 31 December 2022, for the properties financed under its Mortgage portfolio using the PCAF methodology and proxies. Then Group utilised the Science Based Target Initiative's tools in order to estimate the decarbonization pathway that the Mortgage portfolio should follow to be aligned with the IEA B2DS. The Group decided to align the Mortgage portfolio with IEA B2DS due to the following reasons:

i. the scenario is consistent with Global warming projections (International Energy Agency (IEA) and Intergovernmental Panel on Climate Change (IPCC)) and is considered a widely acceptable scenario.
ii. The scenario is considered more plausible compared to the International Energy Agency's Net Zero Scenario given the fact that Cyprus market is pre-mature in the climate field. Therefore, BOC PCL considers reasonable to initiate its efforts based on a less intense scenario and then intensify its efforts when the overall Cyprus market is more mature in the field.
iii. Lack of data, enhances the risk of not having a solid baseline, so BOC PCL considers that is more prudent to initiate its efforts based on a less optimistic scenario until data availability and quality is enhanced.
iv. The scenario is more straightforward to obtain and use as it is aligned with Science Based Target Initiate's available tools.

In order to ensure the feasibility of the interim decarbonisation target and derive the decarbonisation strategy of Mortgage portfolio, BOC PCL has projected the GHG emissions per square meter for the properties financed under its Mortgage portfolio as at 31 December 2030. In order to project the Mortgage portfolio as at 31 December 2030, BOC PCL used various assumptions such as:

i. Projected new lending on Mortgage portfolio between 2024-2030;
ii. Projected square meters of each property financed under projected Mortgage new lending;
iii. Allocation of new lending on Mortgages to EPC classifications;
iv. PCAF proxies on GHG emissions per financed residential property;
v. Cyprus Government targets on the reduction of GHG emissions as well as the utilisation of renewable energy on residential buildings by 2030;
vi. Expiration of Mortgage exposures between 2024-2030.

The Group performed several sensitivities on the assumptions used to project Mortgage portfolio as at 31 December 2030 in order to ensure the feasibility of the target. Under all scenarios (sensitivities) the decarbonisation target on Mortgage on 2030 is achieved. In addition, sensitivities were performed to the baseline of 2022, given the lack of sufficient data, in order to ensure that when data quality of the estimation is improved in the upcoming years the adjusted decarbonisation target will be met. The decarbonisation target on Mortgage is also achieved after the increase / decrease of baseline by 10%, under all scenarios.

At the end of 2023, the Group launched the "Green Housing" product, aligned with GLP of LMA, which drives the decarbonisation strategy of Mortgage portfolio. In 2024, BOC PCL continues to build its green product offering under the Mortgage portfolio to strengthen its decarbonisation strategy. The feasibility of the target is also enhanced by taking into account that Cyprus legislation imposes residential properties to have an EPC A so to issue a planning permit after 1 July 2020.

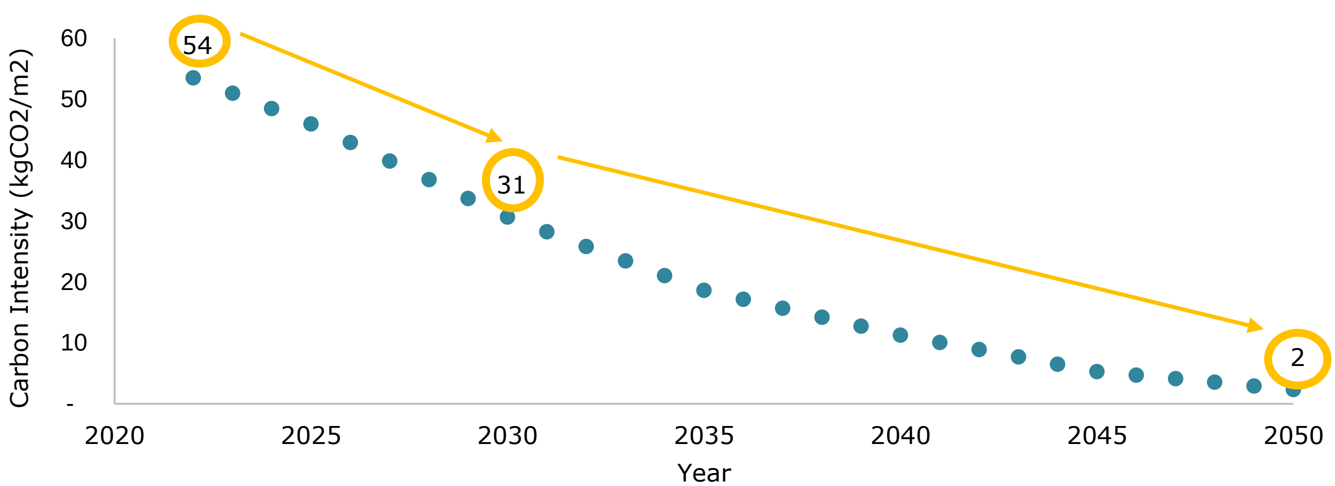
1.1.2. Objectives, targets and limits (continued)

The decarbonization target set on Mortgage portfolio is summarized on the table below:

Metric	Emissions Scope	2022 Base line	Target year	Target	Target reduction	Performance as at 30 June 2024	Figure as at 30 June 2024	Methodology
$kgCO_2/m^2$	S1 & S2	53.50	2030	30.65	(43%)	(8%)	49.11	PCAF/SBTi
$kgCO_2/m^2$	S1 & S2	53.50	2050	2.34	(96%)	(8%)	49.11	PCAF/SBTi

The Group aims to reduce by 43% the kilograms of GHG emissions financed per square metre ($kgCO_2e/m^2$) under the Mortgage portfolio, by 2030 compared to 2022 baseline. The Mortgage portfolio as at 31 December 2023 produced 50.73 $kgCO_2e/m^2$ which is 5% lower compared to the baseline due to increased installation of solar panels in residential properties in Cyprus in 2023 leading to the reduction in the average proxy variable. The Mortgage portfolio as at 30 June 2024 produced 49.11 $kgCO_2e/m^2$ which is c.8% lower compared to the baseline of 2022.

Carbon Intensity Target – Mortgage Portfolio



The Group's Mortgage portfolio should be aligned with the abovementioned graph in order to be aligned with the climate scenario of IEA B2DS and being exposed to lower transition risks. BOC PCL following the abovementioned analysis determined its new Mortgage lending strategy to meet the decarbonization target on Mortgage.

BOC PCL monitors the performance against new lending target in order to take remedial action on time:

i. By the SC, EXCO and NCGC through the Sustainability Performance Report (Quarterly)
ii. By the SC, EXCO and RC through the Climate Risk Report (Quarterly)
iii. By EXCO through the monthly performance pack (Quarterly)
iv. By BDC on a monthly basis.

1.1.2. Objectives, targets and limits (continued)

BOC PCL is taking into account the annual MA on C&E risks, the BES annual impact assessment and the loan portfolio's annual impact assessment based on UNEP FI tools, so to decide which sectors and asset classes should approach in order to set additional decarbonisation targets. Furthermore, the data availability, the estimation of Financed Scope 3 GHG emissions and decarbonisation target methodology availability are also considerations taken into account to determine which sectors and asset classes to focus for target setting. The Group is examining to set decarbonisation target on CRE asset class as well as Transportation and Storage sector of business loan portfolio within 2024 as those are considered sectors exposed to transition risks following the estimation of GHG emissions.

1.1.3. Activities towards environmental objectives and EU Taxonomy-aligned activities

BOC PCL's current Green Lending Policy is based on the Loan Market Association's Green Loan Principles. The policy provides the basis for developing green products through a set of criteria that include the attainment of a specific environmental objective, the management of proceeds to ensure that the funds are only used for the specified purpose and appropriate reporting to support the attainment of the objective. BOC PCL aims to enhance further its policy and is also in the process of considering the EU Taxonomy and looking for ways to implement it going forward on a best effort basis.

1.1.4. Engagement with new or existing counterparties

For the description of the engagement with customers and the actions taken to mitigate risks refer to Section 1.3 Risk Management.

1.2. Governance

1.2.1. Responsibilities of the management body for setting the risk framework

The Sustainability Committee ('SC') is an executive level committee chaired by CEO and has as a primary role the oversight of the ESG agenda of the Group aiming to lead the Group towards a cleaner, fairer, healthier, and safer world. This will be achieved by helping its customers manage risks in a long term sustainable and equitable way and aims for the Group to be an employer of choice in Cyprus.

The SC is responsible for the following:

i. Monitor and review the development of the Group's ESG strategy for managing ESG risks, including C&E risks.
ii. Oversee the implementation of the Group's ESG & Climate strategy.
iii. Review the institution's response and plan of action to the objectives set out under international agreements.
iv. Review ESG targets and KPIs, including C&E targets and KPIs.
v. Review the incorporation of ESG including C&E targets, KPIs and KRIs in the business strategy.
vi. Monitor progress against the Group's ESG working plan including the implementation of the ECB Guide on C&E risks.

1.2.1. Responsibilities of the management body for setting the risk framework (continued)

vii. Monitor progress on Key Performance Indicators (KPIs) set to manage C&E risks and the performance against wider ESG targets, on a quarterly basis, through the Sustainability Performance Report. The Sustainability performance report will be monitored by the EXCO and NCGC on a quarterly basis.

viii. Monitor Key Risk Indicators (KRIs) set to manage C&E risks, through the Climate Risk report, on a quarterly basis. The Climate Risk Report will also be monitored by the EXCO and Risk Committee on a quarterly basis.

ix. Oversee the degree of the Group's alignment with regulatory ESG including C&E related guidance, rules (such as EU Taxonomy, SFDR, NFRD and TCFD) and ECB expectations.

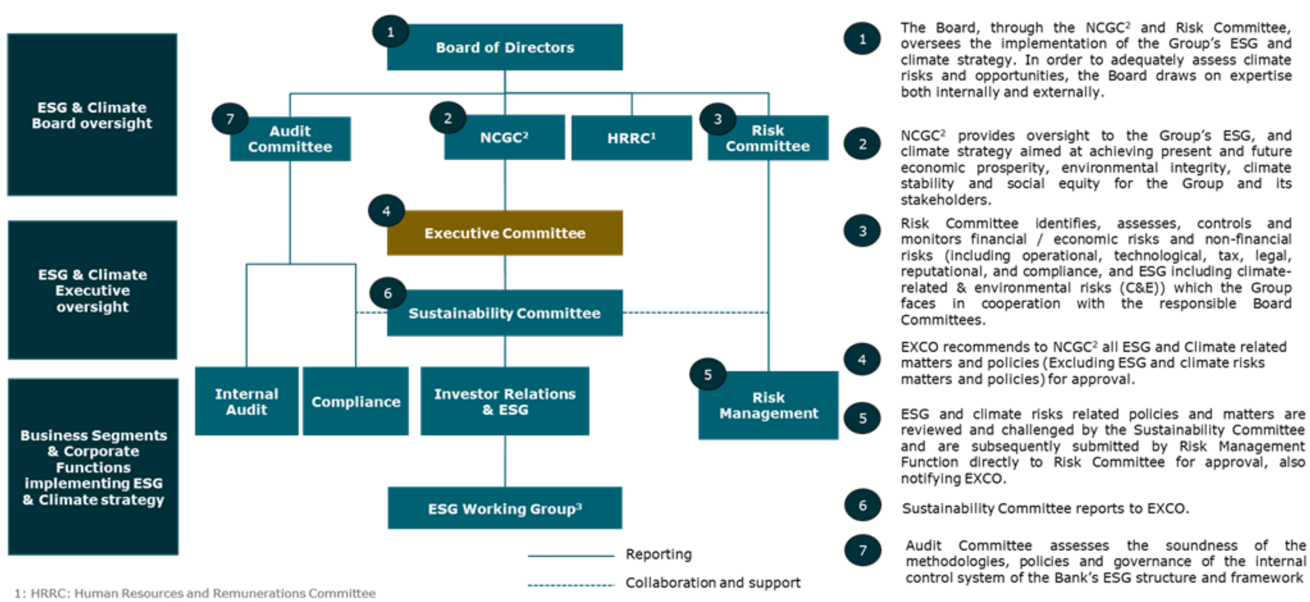
x. Oversee the establishment of environmentally friendly products and Sustainable Finance Framework.

xi. Review policies relating to ESG matters, including C&E, matters to ensure that they are in line with the needs of the Group and the Group's ESG strategy and that they comply with applicable legal and regulatory requirements. Monitors the implementation of policies relating to ESG including C&E matters (Excluding ESG and C&E risks related policies).

xii. Review and challenge Risk Management division regarding ESG matters and policies, including C&E risks related matters and policies, such as ESG and C&E risk identification, quantification, materiality assessment and establishment of ESG and C&E criteria in the loan origination process. Risk Management division subsequently submits to Risk Committee for approval of ESG and C&E risks related matters and policies, also notifying EXCO.

xiii. Review non-financial disclosures including but not limited to the TCFD, relevant ESG disclosures in Pillar 3 and the annual Sustainability Report.

xiv. Monitor the external ESG and C&E trends affecting the formulation of ESG policies, strategies and objectives.



1: HRRC: Human Resources and Remunerations Committee
2: NCGC: Nominations and Corporate Governance Committee
3: ESG working group has been formed in order to support the implementation of the ESG agenda. ESG working group includes Legal, Finance, Business Lines, Operations & Cost Management, Treasury, Digital office, Strategy, Procurement, IT, HR, CAD and Insurance.

1.2.1. Responsibilities of the management body for setting the risk framework (continued)

The Role of the Risk Committee
The RC has been delegated authority by the Board and consists of 3 independent non-executive members of the Board, who possess appropriate knowledge, skills and expertise to understand and monitor the strategy regarding the risk appetite of the Group.

The main purpose of the RC is to review, on behalf of the Board, the aggregate Risk Profile of the Group, including performance against Risk Appetite for all risk types and ensure both Risk Profile and Risk Appetite remain appropriate.

The RC is responsible for the following:

i. Oversee the identification, assessment, control and monitor of financial/economic risks and non-financial risks (including operational, technological, tax, legal, reputational, compliance, and ESG including C&E risks) which the Group faces in cooperation with the responsible Board Committees.
ii. Ensure that the Group's overall Risk Profile and Risk Appetite remain appropriate given the evolving external environment, any key issues and themes impacting the Group and the internal control environment.
iii. Ensure effective and on-going monitoring and review of the Group's management or mitigation of risk, including the Group's control processes, training and culture, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.
iv. Report to the Board any current or emerging topics relating to ESG risks and matters, including C&E risks and matters, that are expected to materially affect the business, operations, performance, or public image of the Group or are otherwise pertinent to it and its stakeholders and if appropriate, detail actions taken in relation to the same.
v. Determine the principles that should govern the management of risks (including ESG and C&E risks), through the establishment of appropriate Risk Policies.
vi. Review and monitor key enterprise wide ESG including C&E metrics, targets, KPIs, KRIs and related goals and monitor the progress towards achieving targets and benchmarks.
vii. Receive and review periodic reports from management on ESG and climate trends, issues, and risks, including developments in applicable regulations, as well as the corresponding mitigation initiatives and controls.

The role of Nomination and Corporate Governance Committee
The Nominations and Corporate Governance Committee (‘NCGC’) has been delegated authority by the Board and consists of 3 non-executive members of the Board, who possess appropriate knowledge, skills and expertise to provide oversight to the Group’s sustainability strategy aimed at achieving present and future economic prosperity, environmental integrity, climate stability and social equity for the Group and its stakeholders.

The NCGC is responsible for the following:

i. Develop a strategy for ESG including C&E matters focusing on Environmental, Climate, Ethical, Social, and Economic pillars and ensure it is embedded throughout the operations of the Group.
ii. Advise, support and guide the Chief Executive Officer (‘CEO’) and Executive Management Team in formulating and implementing a business strategy geared to the sustainable development of the Group taking into account ESG including C&E impacts.
iii. Oversee the SC’s implementation and progress regarding the ESG working plan.

1.2.1. Responsibilities of the management body for setting the risk framework (continued)

iv. Review the institution's response and plan of action to the objectives set out under international agreements.
v. Review and approve the ESG targets and KPIs, including C&E targets and KPIs, and monitor their performance.
vi. Review and approve the non-financial disclosures presented by the SC.
vii. Review and approve the ESG and Environmental Policy and Sustainable Finance Framework which enables BOCH and/or BOC PCL to issue Green/Social or Sustainable bonds.

The process through which the Board Committees are informed on environmental and climate-related issues is presented below:

i. The SC reviews policies relating to ESG matters, including C&E matters, to ensure that they are in line with the needs of the Group and the Group's ESG strategy and that they comply with applicable legal and regulatory requirements. The SC recommends approval of policies to EXCO (excluding ESG and C&E risks related policies). Following EXCO's approval, the policies relating to ESG including C&E matters (excluding ESG and C&E risks related policies) are recommended to NCGC for approval.
ii. The SC reviews and challenge the RMD regarding ESG and C&E risks related matters and policies, such as ESG and C&E risks identification, quantification, materiality assessment and establishment of ESG and C&E criteria in the loan origination process. The RMD then submits to the RC for approval the ESG and C&E risks related matters and policies, also notifying the EXCO.
iii. The SC reviews the institution's response and plan of action towards the objectives set out under international agreements and makes recommendation of the plan of actions for approval to the EXCO. Following EXCO approval and recommendation the plan of actions is submitted to NCGC for approval.
iv. The SC monitors and reviews the development of the Group's ESG strategy for managing ESG, including C&E risks, and recommends to EXCO for approval. Following EXCO approval and recommendation it is submitted to NCGC for approval.
v. The SC reviews BOCH's annual non-financial disclosures including, but not limited to the TCFD, relevant ESG disclosures in Pillar 3 and the annual Sustainability Report and recommends to NCGC for approval, also notifying the EXCO.
vi. The SC reports to the EXCO. The NCGC and RC are updated of the progress of ESG working plan on a regular basis.

1.2.2. Integration of measures to manage environmental factors and risks in internal governance arrangements

The Group has dedicated resources for the handling of ESG issues. Beyond the governance arrangements described above, ESG accountabilities have been set across various divisions of the Group.

Investor Relations and ESG Department (IR&ESG)

The Group's IR&ESG department is developing and implementing the ESG and climate Strategy. The IR&ESG main responsibilities are to:

i. Develop the action plan for the implementation of the ESG and climate strategy;
ii. Compile the ESG working plan and monitor its progress;
iii. Establish the ESG and climate targets and KPIs and monitor their progress;
iv. Develops and rolls out the institution's methodology for portfolio alignment assessments (e.g., using PACTA and SBTi);
v. Develops and rolls out the institution's methodology for measuring financed emissions (e.g., using PCAF);
vi. Prepare ESG and climate-related reporting;
vii. Coordinate the activities and deadlines of the ESG Working Group;
viii. Review in cooperation with RMD the activities completed by the ESG Working Group;
ix. Support other functions in the formulation/update of policies in line with ESG Strategy;
x. Report to the SC in frequent intervals and Board Committees in line with the Terms of Reference;
xi. Update ESG communication messages in coordination with Corporate Affairs Department (CAD);
xii. Communicate ESG strategy to internal and external stakeholders in coordination with CAD and Risk Management; and
xiii. Manage relationship with ESG Rating Agencies & analysts and coordinates improvement actions.

Risk Management Division

The RMD is responsible for the identification, quantification and monitoring of ESG risks, including C&E risks, for own operations and clients. The main responsibilities are to:

i. incorporate ESG risks, including C&E risks, in the Risk Management Framework, policies and procedures;
ii. incorporate ESG and climate criteria in the loan origination process;
iii. review in cooperation with IR&ESG the activities completed by the ESG Working Group;
iv. comply with ECB guide on C&E risks;
v. establish the ESG and climate targets and KPIs in cooperation with IR&ESG; and
vi. establish the C&E Key Risk Indicators (KRIs) through the ESG and climate targets and KPIs set.

The RMD main tasks regarding ESG risks, including C&E risks:

i. Carries out the necessary materiality assessment in relation to C&E risks;
ii. Identifies ESG risks, including C&E risks, and ensures their inclusion in the risk taxonomy and risk register of BOC PCL;
iii. Quantifies C&E risks through scenario or other analysis and provides estimates for their potential impact;
iv. Assesses the impact of C&E risks on the Bank's capital adequacy from an economic and normative perspective;
v. Incorporates C&E risks in its risk classification procedures;
vi. Analyses and provides expert judgement on exposures to clients from high-risk industries;

1.2.2. Integration of measures to manage environmental factors and risks in internal governance arrangements (continued)

vii. Makes recommendations for risk-mitigating actions for transactions assessed as high-risk;
viii. Prepares and maintains the institution's climate-related risk management policies (e.g., exclusion policies);
ix. Develops and rolls out the institution's climate-related client questionnaires for due diligence and data collection purposes;
x. Conducts C&E risks stress testing and provides input on ESG supporting Governance;
xi. Produces reports on C&E risks for submission to the SC, EXCO and RC;
xii. Provides advice and checks on the institution's climate-related product offering, such as green products.

Three Lines of Defence
As per the three lines of defence model established by the Group, Control Functions have defined responsibilities in terms of ESG risks.

Business Lines:

The main tasks of Business lines on ESG risks, including C&E risks are to:
i. Lead the interaction with customers regarding the incorporation of the ESG and climate criteria in the credit underwriting process through the ESG questionnaires and scoring process;
ii. Observe and adhere any sector limits being put in place as derived from the science-based targets;
iii. Implement all policies relating to the Green transition (e.g., Environmental and Social Policy, Green Lending Policy etc.);
iv. Enable the Green Transition through promotion of Green products and services;
v. Engage with key customers for investments in Green products;
vi. When discussing a new lending, guide the customers towards green lending which will help them become a more sustainable business;
vii. Implement initiatives included in the BOC PCL's Decarbonisation strategy for own operations to reduce energy consumption, paper consumption and GHG emissions in relation to the operation of their business unit;
viii. Own and manage C&E risks as part of their responsibility for achieving objectives and for implementing corrective actions to address process and control deficiencies; and
ix. Support in the design of "green" products and services to meet customer's needs and incentivise clients to reduce emissions.

Compliance Division:

Compliance Division's main tasks regarding ESG risks, including C&E risks, are:
i. Identifying, on an on-going basis, the legal and regulatory framework concerning ESG and climate-related risks and communicating to business units any regulatory developments applicable to them;
ii. Ensuring that a complete and updated register of ESG and climate-related risks is maintained and that emanating compliance obligations are documented and supported by appropriate action plans by the responsible units;

1.2.2. Integration of measures to manage environmental factors and risks in internal governance arrangements (continued)

iii. Assess and monitor the implementation of actions to ensure timely and effective compliance with regulatory obligations concerning ESG and climate-related risks and recommends changes to the institution's policies and coordinates the implementation of such changes;
iv. Updates SC, EXCO and AC on ESG Regulations & Compliance Requirements;
v. Performs compliance reviews taking into account ESG and climate-related laws, rules, regulations and standards identifying compliance weaknesses and risks. Prepares and recommends follow-up actions for mitigating such risks. Reports the outcome of these reviews to the management body and/or its committees, including as regards residual risk;
vi. Provides advice on ESG related policies, ensuring these are consistent with the Board's risk appetite and the Group's ESG Strategy;
vii. Provides advice on design and evolution of the ESG and Climate Governance Structure; and
viii. Supports functions and Business Lines for Compliance with ESG Regulations.

Internal Audit Division:

The Internal Audit Division (IA), as a third line of defence, provides independent assurance to the Board and Executive Management on the design adequacy and operating effectiveness of the Group's internal control framework, corporate governance and risk management processes (including ESG and climate risks), according to the risk appetite set by the Board.

IA maintains a Risk & Audit Universe, which includes all material risks that BOC PCL is exposed to, as well as all auditable areas of BOC PCL. The management of C&E risks has been included in IA's Risk and Audit Universe both as a relevant primary risk, but also as an auditable area. Therefore, during the risk assessment process, which is followed to derive IA's Annual Audit Plan (AAP), all auditable areas in the Audit Universe are assessed against C&E risks.

Furthermore:

i. IA ensures the existence of adequate and appropriate resources for all audit engagements included in the AAP, through the calculation of the estimated hours needed on the basis of engagement scope and complexity, while also considering the assigned staff's knowledge, skills and other competencies in the area. Through the use of timesheets, the actual hours spent are recorded and compared with the estimated hours, with deviations investigated and if necessary relevant actions being taken.
ii. The knowledge and skills of the IA staff is assessed on an annual basis, in accordance with its Competency Framework. Based on this assessment, IA takes necessary actions and prepares specific development plans, in order to ensure that its staff possesses the necessary skills and knowledge for the performance of their duties (including for C&E related topics, if required).

It is noted that, since the maintenance of the Risk and Audit Universe is an ongoing process, as BOC PCL gradually builds its overall capabilities for managing C&E risks and enhances relevant processes within its first and second lines of defence, IA will be modifying its Risk and Audit Universe to cover them accordingly.

1.2.3. Lines of Reporting

The Group has introduced reporting around sustainability issues which will be progressively enhanced. Currently, regular reporting primarily consists of:

i. Progress updates on the ESG Working Plan: this takes place through the SC mostly on a monthly basis. Frequent updates (quarterly) are being provided to the NCGC and the RC.
ii. Climate Risk Report: the report was introduced during 2023 and was submitted to the RC through the SC and EXCO. The report updates the committees on:
   - The progress made on the ESG Working Plan focusing on risk management related activities.
   - The level of several KRIs and KPIs relating to transition and physical risks, Financed scope 3 GHG emissions and environmentally friendly lending.
   - The report has been included as part of the above Committees agendas and will be produced on a regular basis.
iii. Risk Appetite Framework (RAF) dashboard reporting: a dedicated RAF report (Risk Profile) is produced on a quarterly basis. The report includes all RAS indicators, including the ones related to climate risk, and is submitted to the EXCO, RC and the Board. Any interim breaches are assessed with respect to their Tier and breach severity and are reported and / or escalated to the appropriate committee.
iv. Additional monitoring reports have been established in 2023:
   - Sustainability Performance Report: aims to facilitate the monitoring of decarbonization targets (Scope 1, Scope 2 and Scope 3), Green/Transition lending targets (Retail, Corporate and SME) and Other wider ESG targets (Renewable energy, paper consumption, Sustainable Bonds Investments etc.).
   - Business environment scan (BES) monthly update report: the report provides update to the BES Working Group on the key updates and developments on C&E area that might impact C&E risks and the Business Strategy.
   - Business environment scan (BES) impact report: the report is produced on a quarterly basis summarizing the impact of key updates and development on the C&E risks and the mapping to the traditional risk categories and the Business Strategy per time horizon. In addition, the updates and developments arising from the BES are further linked to sectors and relevant products. The quarterly impact assessment (preliminary impact assessment) is presented to the SC and EXCO, on a quarterly basis. The final impact assessment is presented and discussed at the SC, EXCO, RC and NCGC.

1.2.4. Alignment of the remuneration policy with institution's environmental risk-related objectives

The Group has taken necessary steps in embedding its ESG strategic goals within the remuneration policy, adhering to the importance of connecting the performance of its personnel to ESG and climate matters as a way of incorporating ESG culture within the organisation. The remuneration policy promotes and is consistent with sound and effective risk management, is in line with the Group's ESG and climate strategy and does not encourage excessive risk taking that exceeds the level of risk tolerated by the Group.

Performance Criteria (financial and/or not financial), set to measure the performance of Senior Management, are expected to contain KPIs that relate to the implementation of the Group's ESG strategy, reflecting the Group's emphasis on achieving its climate related objectives, in accordance with the role and responsibility of each Senior Manager in relation to the ESG Strategy. Performance criteria will include incentives set to manage ESG risks related objectives and or limits to ensure that green washing practices are avoided. These are expected to be cascaded down to staff, through the performance appraisal system, in line with the staff's respective role and responsibilities, so as to continuously enhance the Group's ESG culture, elicit the right behaviours and align individual results with ESG Strategy.

Group wide performance relating to ESG and climate targets are included in the performance scorecard of any applicable Long-Term Plan, at the time of the design and approval of each Plan. The long-term incentive plan (LTIP) that has been approved by the Company's shareholders, incorporates measurement of performance against an evaluation scorecard consistent with the Group's Medium-Term Strategic Targets, which include Environmental, Social and Governance ("ESG") targets. The evaluation scorecards used in the abovementioned scheme includes KPIs on External ESG ratings. External ESG ratings are granted based on an external assessment performed on Environmental, Social and Governance aspects of the Group.

1.3. Risk Management

1.3.1. Timeframes

Due to the longer timeframes associated with C&E risks, the Group has defined the expected materialisation horizons of the different risks identified. The logic of this is explained below:

Time horizon	***Start Year***	***End Year***	***Explanation for why the firm chose that specific time frame***
Short-term (1-3 years)	2023	2026	The Corporate Sustainability Reporting Directive (CSRD) is expected to be a major disruption and a milestone for climate change activation. As CSRD will first be applied in January 2025 (for FY 2024) for EU listed companies, and every year thereafter up until 2028 to include certain SMEs and large companies (Years 1-3), the Group considers the first three years as its first time horizon. Furthermore, the Group is committed to become carbon neutral by 2030 by reducing Scope 1 and Scope 2 GHG emissions from own operations. The Group has focused its main decarbonisation actions in the short-term up to 2026 in order to lead the decarbonisation efforts, lead by example and also to benefit from any government subsidies that will be announced as part of the Recovery and Resilience Facility (RRF) of the European Union. As a result, the risk horizon the Group focuses for short term is between 1-3 years.
Medium-term (4-7 years)	2027	2030	As 2030 is the year set by the EU for the goal of ‘Fit for 55’ (i.e., a 55% reduction of GHG emissions below 1990 levels), the Group has also set 2030 as the medium-term risk horizon for the identification of C&E risks and opportunities. Therefore, the time horizon for medium term is between 4-7 years. In addition, the Group is committed to become carbon neutral by 2030 by reducing Scope 1 and Scope 2 GHG emissions by 2030, therefore C&E risks should be identified and managed in a horizon of 4-7 years in order to achieve the target set.
Long-term (8-27 years)	2031	2050	The Group considers a time horizon of over 8 years for chronic physical risks to manifest. Additionally, the Group has set a target to become net zero by 2050, following its commitment to the Paris Agreement, which indicates that Scope 1, Scope 2 and Scope 3 GHG emissions should be reduced by 2050 to zero. For Scope 1 and Scope 2 own operations the reduction target is relevant for all time horizons. However, the climate related risks associated with Financed Scope 3 GHG emissions depend also on the useful life of the assets, which for the majority of the current loan portfolio of the Group this translates to a maturity beyond 8 years. As such a long-term time horizon has been set to 8–27 years to cover both the risks as well as the strategic aspects of climate related risks within the organisation.

1.3.2. Definitions and methodologies

BOC PCL has aligned its definitions of C&E risks with the requirements set in the ECB's Guide on climate-related and environmental risks (November 2020), Good practices for climate-related and environmental risk management Observations from the 2022 thematic review (November 2022) and the EBA's report on management and supervision of ESG risks for credit institutions and investment firms (June 2021). BOC PCL has enhanced its Risk Identification and Materiality Assessment process (RIMA), and this analysis was also supported through the usage of the UNEP FI PRB's Impact Analysis Tool as well as several resources through literature and other reports. Furthermore, BOC PCL has implemented the use of Network for Greening the Financial System scenarios (NGFS) in the development of its stress testing framework that took place in 2023. More details on these methodologies and the outcome of the analysis are provided in the sections that follow.

1.3.3. Processes to identify, measure and monitor activities and exposures

C&E Risks Identification & Materiality Assessment (RIMA) process

In 2023, BOC PCL has refined its Materiality Assessment (MA) of C&E risks as drivers of existing financial and non-financial risks, namely Credit risk, Liquidity risk, Market risk, Operational risk, Strategic risk as well as Reputational and Legal risk, taking into consideration its business profile and loan portfolio composition.
As part of the RIMA process, BOC PCL has enhanced the following steps to ensure a comprehensive and structured MA process, having due consideration on the specificities of its business model, operating environment and risk profile:

i. Identification and documentation of C&E risk drivers
ii. Definition of transmission channels for C&E risks
iii. Assessment of materiality of C&E risk drivers

Specifically, BOC PCL has conducted an assessment of the following C&E risks, as drivers of existing risks:

i. Climate-related physical risk drivers
ii. Climate-related transition risk drivers
iii. Environmental transition risk drivers (other than climate risks)
iv. Environmental physical risk drivers (other than climate risks)

The assessment has been conducted using both quantitative and qualitative methods. For data driven methods, a combination of internally collected BOC PCL specific data and external data have been used.

In summary, as a first step, a more granular list of potential C&E risk drivers has been identified through the enhancement of the inventory of C&E risks already developed by BOC PCL in the course of the previous C&E risk assessment exercises. In particular, BOC PCL has proceeded with an additional classification and categorisation of the C&E risks across four levels of granularity as per the following example:

i. Climate-related risk (Level-1)
ii. Physical risk (Level-2)
iii. Acute risk (Level-3)
iv. Wildfire (Level-4)

As a second step, the C&E risks have been mapped to the existing financial and non-financial risks through respective transmission channels.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

As a third step, a combination of qualitative and quantitative methods has been utilised for the purpose of the performance of the MA of C&E risks using various materiality parameters and thresholds, depending on the method and data used for assessment. In addition, the evolution of C&E risks has been considered over the short, medium and long-term time horizons.

C&E risks are recognized as drivers of the existing risks (Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Reputational Risk, Strategic Risk and Legal Risk) and may impact BOC PCL directly or indirectly through counterparties, assets (microeconomic channels) or the broader economy in which the relevant clients and BOC PCL operates (macroeconomic channels). BOC PCL has defined the transmission channels through which the C&E risks can influence each of its existing risk categories. A more detailed description of each of the C&E risk transmission channels with regard to the principal risks and the arising impact on BOC PCL is provided in the Table 1 below.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

C&E Risk Drivers	Transmission Channels (Non-exhaustive List)	Potential Impact on the Group	Affected Financial and Non-Financial Risk Types
Transition Risks	i. Impact on repayment ability of clients through: i. Increased operating costs for compliance and/or lower revenues ii. Increased capital expenditures to comply with regulatory standards iii. closure of business lines or facilities due to transition to greener economies and public sentiment	Increased Probability of Default ('PD') and Loss Given Default ('LGD')	**Credit Risk***
	i. Impact on the price of marketable instruments (bonds/equity) and to Real Estate assets ii. Impact on BOC PCL's valuation if it does not reduce its emissions and/ or increase its GAR	i. Decrease in value of the REMU portfolio due to increase in operational costs and decrease in the value of the assets ii. Large/ small sell-off (of HQLA) against reduced prices and/ or potential difficulty to liquidate iii. Interest rate and FX shocks, credit spreads changes	**Market Risk****
	i. Inability to raise funding due to lack of climate change action by the organisation ii. Depletion of deposits to address increase operational costs or mitigate transition risks	i. Rapid withdrawal of customer deposits ii. Unexpected significant expenses or charges that may influence liquidity position and net outflows iii. Lack of funding sources / negative changes in funding structure iv. Lower demand for BOC PCL's capital issuance v. Difficulties in selling assets / selling of assets with a discount	**Liquidity Risk*****

Table 1: *Overview of the key transmission channels and potential impact on the Group through C&E risks*

* Including Counterparty risk, Settlement risk, Issuer risk, Concentration risk and Country risk.
** Including Interest rate risk, FX risk, Real Estate risk, Credit Spread risk and Equity risk.
*** Including Liquidity risk and Funding risk.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

C&E Risk Drivers	Transmission Channels (Non-exhaustive List)	Potential Impact on the Group	Affected Financial and Non-Financial Risk Types
Transition Risks	Socioeconomic changes (e.g. changing consumption patterns / customer preferences)	i. Losses due to physical damages or shutdowns ii. Increased operational costs for the buildings of BOC PCL iii. Losses from lower productivity iv. Losses from wrong decisions/ process issues v. Additional significant operating or capital expenses	**Operational Risk***
	i. Inability to meet stakeholders' demands as a result of changing market sentiment ii. Reputational damage due to the financing of environmentally harmful projects	i. Limited business opportunities/ lessened expansion potential ii. Workforce fluctuations iii. Client withdrawal iv. Additional investments to improve internal processes and comply with expectations	**Reputational Risk**
	Litigation risks due to financing of environmentally harmful projects	i. Litigation costs may reduce the value of the REMU portfolio ii. Non-compliance with regulation and policy measures iii. Investments in carbon intensive and unsustainable projects, buildings or similar iv. Misalignment of communicated targets and reality	**Legal/Litigation Risk**
	i. Additional costs and regulatory repercussions relating to, for example, exposure to real estate portfolio without adequate EPC labels, or exposure to high emitting/ polluting sectors ii. Regulatory and / or market developments in relation to financial institutions offering 'green' products impacting BOC PCL's competitiveness	i. Loss of revenues due to strategic reorientation (e.g. loss of profitable business line) ii. Inadequate definition and execution of the strategy (e.g. incorrect or faulty assumptions, poor implementation) iii. Expenses for the implementation of upcoming C&E regulatory requirements / changes iv. Limited business opportunities/ lessened expansion potential	**Strategic Risk**

Table 1: *Overview of the key transmission channels and potential impact on the Group through C&E risks (continued)*

* Including Regulatory Compliance/Conduct risk, FEC risk, Internal/ External Fraud risk, People risk, BC risk, IT/ Cyber Risk, Technology risk, Data Accuracy and Integrity risk, Physical Security and Safety risk, Statutory Reporting and Tax risk, Transaction Processing and Execution risk, Project risk, Model risk and Third-Party risk.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

C&E Risk Drivers	Transmission Channels (Non-exhaustive List)	Potential Impact on the Group	Affected Financial and Non-Financial Risk Types
Physical Risks	i. Increased operating costs due to retrofitting and/or damage / substitution of assets ii. Increase in insurance costs iii. Lower revenues due to reduced productivity or damage in value chain operations iv. Decrease in value of property collateral	Increased PD and LGD	**Credit Risk**
	i. Impact on the price of marketable instruments (bonds/equity) and to Real Estate assets ii. Impact on BOC PCL's valuation if it does not reduce its emissions and/ or increase its GAR	i. Decrease in value of the REMU portfolio due to increase in operational costs and decrease in the value of the assets ii. Large / small sell-off (of HQLA) against reduced prices and/ or potential difficulty to liquidate iii. Interest rate and FX shocks, credit spreads changes	**Market Risk**
	Depletion of deposits to address increase operational costs or address or mitigate physical risks (e.g. to finance damage repairs)	i. Rapid withdrawal of customer deposits ii. Unexpected significant expenses or charges that may influence liquidity position and net outflows iii. Lack of funding sources / negative changes in funding structure iv. Lower demand for Bank's capital issuance v. Increase in funding costs vi. Difficulties in selling assets/ selling of assets with a discount	**Liquidity Risk**

Table 1: *Overview of the key transmission channels and potential impact on the Group through C&E risks (continued)*

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

C&E Risk Drivers	Transmission Channels (Non-exhaustive List)	Potential Impact on the Group	Affected Financial and Non-Financial Risk Types
Physical Risks	Increased operating costs due to damage on premises, operating locations and other facilities	i. Losses due to physical damages or shutdowns ii. Increased operational costs for the buildings of BOC PCL (e.g. to comply with energy efficiency standards) iii. Losses from lower productivity iv. Losses from wrong decisions/ process issues v. Unplanned or additional significant operating or capital expenses	**Operational Risk**
	Increased operating costs arising from the management of C&E risks	i. Limited business opportunities/ lessened expansion potential (including respective operating losses) ii. Workforce fluctuations (including respective operating losses) iii. Client withdrawal (including respective operating losses) iv. Additional investments to improve internal processes and comply with expectations	**Reputational Risk**
	Litigation risks arising from BOC PCL's exposure to physical climate-related and/ or environmental damages	i. Litigation costs may reduce the value of the REMU portfolio ii. Non-compliance with regulation and policy measures iii. Investments in carbon intensive and unsustainable projects, buildings or similar (knock on effects from reputational loss) iv. Misalignment of communicated targets and reality	**Legal/Litigation Risk**
	Inadequacies in BOC PCL's product offerings without factoring in the potential damages resulting from physical risks associated with climate change; this could result in increased defaults on loans and negatively impact BOC PCL's asset quality.	i. Loss of revenues due to strategic reorientation (e.g. loss of profitable business line) ii. Inadequate definition and execution of the strategy (e.g. incorrect or faulty assumptions, poor implementation) iii. Expenses for the implementation of upcoming C&E regulatory requirements / changes iv. Limited business opportunities	**Strategic Risk**

Table 1: *Overview of the key transmission channels and potential impact on the Group through C&E risks (continued)*

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

Assessment of C&E risks as drivers of financial and non-financial risks

Following the mapping of C&E risks as potentially relevant or not-relevant drivers of the principal risks, through the transmission channels, BOC PCL assessed the impact of C&E risks on the principal risks. BOC PCL has applied a combination of both qualitative and quantitative methods. The following methodologies have been applied:

a. Quantitative Geographic Assessment

This assessment is applicable to C&E physical risks as drivers of Credit, Market, Liquidity and Operational risks. Specific physical climate related hazards, namely Wildfire, Landslide, River Flood, Wind Gusts (Storms), and Sea Level Rise have been considered using geolocation data (i.e. coordinates, postal codes, municipalities) with respect to the following:

i. Credit risk: borrowers' collateralized (secured) portfolio (geolocation coordinates of collateral properties) and unsecured portfolio (postal codes or municipalities of borrowers' location);
ii. Market risk: properties of BOC PCL's REMU portfolio (geolocation coordinates of collateral properties);
iii. Liquidity risk: deposits held by Cyprus residents (postal codes or municipalities of deposit holders' locations);
iv. Operational risk: BOC PCL's physical locations (postal codes or municipalities of Bank's facilities).

Furthermore, specific environmental hazards, namely Air Pollution, Soil Pollution and Earthquake have been considered with respect to the following:

i. Property collateral for Credit risk secured portfolio (geolocation coordinates of collateral properties) - in respect to Air pollution, Soil pollution and Earthquake;
ii. Borrowers for Credit risk unsecured portfolio (postal codes or municipalities of borrowers' location) – in respect to Air pollution, Soil pollution and Earthquake;
iii. Property collateral for the REMU portfolio for Market risk (geolocation coordinates of collateral properties) - in respect to Earthquake;
iv. Deposits held by Cyprus residents for Liquidity risk (postal codes or municipalities of deposit holders' locations) – in respect to Earthquake;
v. BOC PCL's physical locations for Operational risk (postal codes or municipalities of the Bank's facilities) – in respect to Earthquake.

To further analyze the materiality of risk exposures to both physical and environmental hazards, a distribution analysis of underlying credit exposures (for both secured and unsecured portfolios), deposit amounts and employees count across risk scores (1-Low, 2-Medium, 3-High, 4-Critical) is performed. To conclude on the materiality of a specific hazard based on the distribution analysis across risk scores, a decision tree logic has been applied leading to one resulting risk score per hazard (consistently, the same 4-level unique risk scale has been applied).

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

b. Quantitative Country and Industry Heatmaps

To inform the MA process, BOC PCL has performed a heatmapping exercise to determine how physical and transition risks affect certain industries that BOC PCL is exposed to, and subsequently to determine the impact on the overall BOC PCL's risk profile and operations. Three different heatmaps have been constructed to assess specific risks and segments as described below.

Country climate transition risk heat map
The heatmap was used to assess:

i. Liquidity risk: deposits held by non-Cyprus residents (foreign deposit amounts)
ii. Market risk: HQLA Bond portfolio (corresponding CVaR)

A corresponding risk score from the heat map has been assigned to foreign deposit holders based on the underlying country of residence, and to bonds based on the underlying country of the issuer. As a next step, a distribution analysis of deposit amounts and CVaR across risk scores has been performed.

Country climate physical risk heat map
The heatmap was used to assess:

i. Market risk and Liquidity risk: HQLA Bonds portfolio
ii. Operational risk: Foreign locations of BOC PCL's third-party outsourcing/ providers

A corresponding risk score from the heat map has been assigned to bonds based on the country of issuer and to third party providers based on country of location. As a next step, a distribution analysis of HQLA balances (CVaR for Market risk and market value for Liquidity risk) and number of employees (per country of third-party provider location) across risk scores has been performed.

Industry climate transition risk heat map
The heatmap was used to assess:

i. Credit Risk: Secured and unsecured credit exposures

A corresponding risk score from the industry heat map has been assigned to borrowers of secured and unsecured loans based on the economic sector of their activity. As a next step, a distribution analysis of secured and unsecured credit exposures across risk scores has been performed.

In order to conclude on the materiality of climate transition and physical risks based on the distribution analysis described above, the same logic as described in the quantitative geolocation methodology (decision tree) has been applied, leading to a single resulting risk score (consistently, the same 4-level unique risk scale has been applied).

c. Qualitative analysis based on Expert Judgement

Expert judgement has been also employed to assess certain risk drivers including those for Strategic, Reputational and Legal risks. Expert judgement includes additional external sources and publicly available statistical data such as consultation reports, scientific publications and other sources featuring Cyprus-specific data from Eurostat, World Resource Institute, Climate Analytics, Climate Vulnerability Monitor etc.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

d. Sectoral Analysis

To support Level-3 risk scores, i.e., at the level of chronic, acute etc. risks sub-types, for all existing financial and non-financial risk categories, BOC PCL considered, among others, the impact of C&E risks at a sectoral level. Such analysis included the sectoral breakdown (per NACE code):
- for each exposure type relevant to the given risk type
- for certain climate physical risks (level 4) such as Flood, Landslide, Sea Level Rise and Storms

In addition, for transition risks, the BOC PCL has used an industry heatmap with GHG emissions intensity as the indicator of the sectors' sensitivity to transition risks (the higher the GHG intensity, the higher exposure to transition risks). As a next step, a distribution of the credit exposures to these emissions categories has been allocated and an overall score for transition related risks was determined.

e. Determination of materiality

Different types of scores have been considered during the MA depending on the type of risks analysed and methods considered. Determination of materiality was concluded at C&E Risks Level 3, i.e., at the level of chronic, acute etc. risks sub-types, utilizing BOC PCL's existing Risk and Control Self-Assessment methodology and thus assessing Impact and Likelihood on a scale from one (1) to five (5), to ensure consistency.

The definitions of each Impact and Likelihood scores have been formulated, taking into account the nature of C&E risks and encompassing different characteristics of the physical and transition risks, as well as the acute and chronic drivers in a harmonised way. Thus, for the purposes of this MA, the definitions of Impact and Likelihood have been tailored to describe the occurrence of severe C&E events or circumstances, since these are typically responsible for the great majority of the potential risk. In addition, materiality risk score levels "High" and "Critical" have been considered as "material" for the purposes of the Materiality Assessment, whilst "Low' and "Medium" scores as "non-material".

f. UNEP FI Impact Analysis Tool

BOC PCL has employed the UNEP FI's Impact Analysis Tool which provides for a two-step process to understand and manage actual and potential positive and negative impacts of the financing it provides. As per the methodology underpinning the tool (UNEP FI's Holistic Impact Methodology) the impacts are analysed across the spectrum of the three pillars of sustainable development articulated by the SDGs:

i. Human needs (the social pillar – people)
ii. Environmental conditions or constraints (the environmental pillar – planet)
iii. Economic development (the economic pillar – prosperity)

The tool supports in the selection of the industries that BOC PCL has the biggest exposures to and following that, it maps which of them are particularly affected by sustainability trends.

For the Corporate portfolio, the impact analysis focussed on the fifty most important sub-sectors based on NACE codes for a total of ten sectors, analysing €4,5 billion of exposures out of a total of €10 billion gross loan book as at 31 December 2023. In terms of industries, Accommodation, Real Estate, Trade and Construction have the highest share in the Group's portfolio.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

Sectors that are of less importance in terms of financed exposure but are considered significant due to their impact on the SDGs, e.g., manufacturing, transportation and agriculture, were also analysed. For Consumer banking, the impacts of the most prevailing banking products were examined including credit cards, overdrafts, consumer loans, mortgage loans, student loans and vehicle loans.

Analysis

a) Corporate Portfolio

As a result of the analysis carried out, the most relevant impact areas of strategic importance were identified:

i. Employment, Wages and Social Protection (SDG 1 and SDG 8) - Social
ii. Health and Safety and Healthcare and Sanitation (SDG 3) - Social
iii. Healthy economies, Housing and Infrastructure (SDG 8, SDG 9 and SDG 11) – Social
iv. Climate Stability, Biodiversity and Healthy Ecosystems, Resource efficiency and Waste (SDG 6, SDG 12, SDG 13, SDG 14 and SDG 15) – Environmental

According to the analysis the biggest positive impact is in the following areas:

i. Employment, Wages and Social Protection which includes the overall financing in all areas of the economy. According to our Environmental and Social Policy, for all financing to Legal Entities above €100,000 a written confirmation is needed for proper business conduct, relevant licenses and work permits. In cases where the Legal Entity is categorised as medium or high risk (as per EBRD's E&S Risk Categorisation List) additional safeguards are in place, such as due diligence reports by external experts (i.e. professionals on the assessment of E&S risks). This contributes to the promotion of wellbeing and to decent work for everyone.
ii. Health and Safety and Healthcare and Sanitation, including financing in the areas of manufacture of medical products that contribute to health and wellbeing, as well as financing in the healthcare sector that facilitates access to the corresponding care.
iii. Healthy economies, Housing and Infrastructure. This positive impact stems from the fact that BOC PCL typically lends to sector wide small-medium-sized enterprises (SMEs) which are the cornerstones of a functional economy. SMEs account for the majority of companies in Cyprus and are responsible for a large portion of the private sector employment. In addition, Construction and Real estate financing can also contribute to the development of quality, reliable, sustainable and resilient infrastructure, to support economic development and human well-being.

Focusing on the negative impacts, the analysis indicates that all the activities of the financed portfolio can potentially affect the entire environmental pillar as expressed through the three distinct impact areas of:

i. Circularity,
ii. Biodiversity & healthy ecosystems, and
iii. Climate stability.

Activities from the most prevailing financed sectors of BOC PCL such as Construction and Real Estate are negatively associated with:

i. Biodiversity,
ii. Resource Intensity,
iii. Waste, and
iv. Climate Stability.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

This is mainly due to the fact that these sectors are associated with the use of natural resources, produce waste during the construction/operation phase, affect the climate through the GHG emissions of the properties and in addition, the land/area they are built on may have adverse effects on the local ecosystems.

Similarly, the manufacturing and the transportation sectors are mainly associated with the consumption of fossil fuels and production of GHG emissions (through energy usage and mobility). Agriculture is a sector where it takes up a lot of land whereas livestock production causes the emission of fairly large amounts of GHG. The accommodation sector, which is of the largest sectors in of BOC PCL's loan portfolio, it is not considered a key sector by the UNEP FI tool. However, it is negatively associated with waste, pollution, and the cause of strain on land and local ecosystems.

Examining the potential negative impacts of the portfolio on the Social Pillar, these are mainly located in the areas of Health and Safety, Wages and Social Protection.

b) Consumer Banking - Households

The analysis indicated that all consumer banking products have a significant impact on Finance (SDG 8 and SDG 9), which relate to the provision of affordable credit for to all the consumers as to cover their everyday needs. Mortgage loans are positively associated with Housing (SDG 11) and negatively associated with Climate Stability and Resource Intensity mainly due to the consumption of energy (GHG emissions). Similarly, vehicle loans are adversely related to Climate stability and Resource intensity due to their GHG emissions. Student loans help to promote education across the population and is thus positively associated the Education (SDG 4).

c) Next Steps

The Group is constantly monitoring results and working on policies as to target specific industries and sectors that will help it increase its positive impact (e.g., lending to renewable energy projects).

g. Business Environment Scan (BES)

BOC PCL, in 2023, established the BES process to monitor C&E developments / updates as already described in Section 1.1.1. The process is mainly used as a risk identification tool, that identifies C&E risks emerging from relevant developments and their association with existing risk categories. As part of this monthly scanning process, BOC PCL will gradually incorporate additional sources to monitor sector-specific developments and updates, and in particular monitor developments for industries that might have significant impact from C&E risks or new regulations that might heighten C&E transition risks. New developments identified within the BES are carefully analysed for their relevance and potential impact on BOC PCL's risk and strategic profile. This integrated approach enhances BOC PCL's ability to manage and control C&E risks effectively, thus, associated risks arising from C&E risks will be closely monitored and analysed on regular basis and feed into the MA.

BOC PCL has performed the first round of the BES and analysed recent regulatory and market updates, relevant to BOC PCL's business. The results of the first run of the BES have been considered and informed the annual MA with the developments that have been classified as "High" and "Critical" with respect to their potential impact.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

h. Climate risk assessment at loan origination

During 2023, BOC PCL established an ESG Due Diligence process with the objective being to assess customers (existing and new) on their performance against various aspects around ESG and climate risks. The process involves the utilization of internal developed structured questionnaires applied at the individual company level and has been initially deployed to customers within the Corporate Division. The questionnaires focus more on the Environmental / Climate risk pillar and aim to assess various aspects of each customer touching upon matters around Governance, Training, Strategy & Business Planning, Energy metrics and other. The Social and Governance pillars are also assessed through several relevant dimensions such as Corporate and Social Responsibility, Human Rights, Board Composition etc.

The Due Diligence process is applied when granting new and/or reviewing existing credit facilities. Since March 2024, the internally developed questionnaires have been replaced by questionnaires deployed through a common platform across the Cypriot Banking System, a fact that ensures a harmonised approach in terms of the customers' ESG assessment in all Cyprus Banks. Going forward, the Bank will consider the deployment of the ESG assessment to other business lines as well.

i. Climate Risk Sensitivity and Stress Testing

i. Sensitivity Analysis

Scenario analysis and climate risk stress testing are methods which assist in evaluating and managing the possible effects of C&E risks, to the Group's business strategy and financial planning decisions.

To assess the potential impact of transition risks on the Business Model, a sensitivity analysis was carried out on portions of the corporate and mortgage portfolios that were identified as being exposed to transition risks as per the materiality assessment of March 2022. The analysis related to the Financial Plan for the period between 2023 – 2026 and reflected the potential impact of a short-term disorderly scenario according to which a set of climate related policies were implemented at the beginning of 2023.

Estimation of impact was done on a top-down basis considering the outcome of regulatory climate stress tests, and specifically the outcome of the Bank of England Climate Biennial Exploratory Scenario. Considering the specific composition of the BOC PCL's portfolio, such climate related policies would most likely affect customers in the Construction, Real estate and Accommodation sectors and customers with mortgage loans granted prior to 2009 implying thus a less-energy efficient property. The outcome of the analysis thus provided a magnitude of losses BOC PCL might face if both BOC PCL and its customers do not respond effectively to climate risks.

ii. Transition Risk Framework

BOC PCL developed a Framework to quantify transition risks. The framework addresses all sectors of the BOC PCL's portfolio, but dedicated models were created for those sectors that are more susceptible to transition risks, based on their inherent activities and their exposures. Such sectors include Construction, Hotels, Real Estate and Mortgages whilst the remainder of the BOC PCL's portfolio is catered through a generic model.

BOC PCL has executed an internal preliminary Stress-test exercise with Balance Sheet reference date 30 September 2023 with Corporate Ratings having a reference date of 31 December 2022.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

The projections, in terms of PD impact of the climate scenarios, were formed until 2050 on a counterparty level, with the outcome being aggregated to sector level to allow for Sectoral analysis. The results of the stress testing do not include Balance Sheet Projection values and impact of the Collaterals.

For the preliminary Stress Test run the following Network for Greening the Financial System (NGFS) scenarios have been selected:

i. NDCs – Nationally Determined Contributions, which for the case of Cyprus, almost coincides with the "Below 2°C" scenario given the EU Members' aspiration for climate Policies. "Below 2°C" scenario gradually increases the stringency of climate policies, giving a 67 % chance of limiting global warming to below 2°C.
ii. Current – Current Policies scenario assumes that only currently implemented policies are preserved, leading to high physical risks.
iii. Delayed Transition – Delayed Transition scenario is under the Disorderly scenario category. It assumes annual emissions do not decrease until 2030. In addition, it requires strong policies to limit warming to below 2°C and negative emissions are limited.

The PDs under the preliminary Stress Test on transition risks are substantially increased on the "Delayed Transition" scenario between 2031-2040 compared to the "Current" scenario.

iii. Physical Risks

In terms of physical risks, efforts were focussed on estimating the impact on property value from the potential materialisation of such risks. This is considered relevant to BOC PCL, given the concentration of clients in activities relating to immovable properties such as Construction, Accommodation & Food Service, Real Estate, Mortgages as well as the fact that a significant portion of BOC PCL's collaterals are real estate assets.

To that end, granular data were obtained from an external vendor, providing granular, location level information. For the purposes of the analysis which was also used as part of its RIMA process, the NGFS scenarios were employed and used as a reference. In particular, the following scenarios were used and projected up to 2050:

i. Orderly transition: assume that climate policies are introduced early and gradually become more stringent. Physical and transition risks are relatively small.
ii. Disorderly transition: explore higher transition risk due to delayed or divergent policies across countries and sectors,
iii. Hot House World: assume that some climate policies are being implemented in some jurisdictions, but that global efforts are insufficient to halt significant global warming. These scenarios pose serious physical risks.

The analysis of the data allowed BOC PCL to gain an understanding of the assets vulnerable to the various physical risks, their level of riskiness as well as potential concentrations across the island. Furthermore, following the identification of physical risks, the monetary impact (damage function) for each combination of property, hazard, scenario, and year was estimated. This monetary impact considered not only the geo-localisation features, but also the asset-specific characteristics, i.e., commercial, industrial, residential, other use. At the moment, the damage function measurement, for wildfire hazard, has been incorporated as part of the ICAAP process.

1.3.3. Processes to identify, measure and monitor activities and exposures (continued)

iv. ILAAP Updates

BOC PCL considered the C&E risks financial impact, and in particular transition risks, and how these might affect BOC PCL's counterparties efforts to meet any C&E requirements from the process of adjustment towards a lower carbon economy.

Stress testing analysis was used to assess the effects on BOC PCL's liquidity, focusing on sectors expected to be impacted by transition risks. Higher outflows were assumed for the deposits of economic sectors which are expected to be more vulnerable to C&E risks and more specifically to transition risk.

1.3.4. Mitigation measures

Changing regulatory and legal requirements, increased stakeholder concern, shifts in consumer preferences, and the mandates on and regulation of existing products and services are just a few ways that BOC PCL can be exposed to climate risk. BOC PCL periodically reviews the risks it faces and considers how they may affect its clients and its operations.

The Group has introduced reporting around sustainability issues which will be progressively enhanced. Currently, regular reporting primarily consists of:

i. Progress updates on the ESG Working Plan: this takes place through the SC mostly on a monthly basis. Frequent updates (quarterly) are being provided to the NCGC and the RC.
ii. Climate Risk Report: the report was introduced during 2023 and was submitted to the Risk Committee through the Sustainability Committee and EXCO. The report updates the committees on:
    a) The level of several KRIs and KPIs relating to transition and physical risks, Financed scope 3 GHG emissions and environmentally friendly lending
    b) The report has been included as part of the above Committees agendas and will be produced on a regular basis.
iii. RAF dashboard reporting: a dedicated RAF report (Risk Profile) is produced on a quarterly basis. The report includes all RAS indicators, including the ones related to climate risk, and is submitted to the EXCO, RC and the Board. Any interim breaches are assessed with respect to their Tier and breach severity and are reported and / or escalated to the appropriate committee.
iv. Establishment of the E&S policy to manage environmental impacts of new lending.
v. ESG Questionnaires aiming to identify C&E risks of counterparties and set mitigation action for risk reduction.
vi. Integration of transition risks in scenario analysis with regards to the repayment ability based on climate scenarios.
vii. Prescence of lending restrictions to carbon intensive sectors through both BOC PCL's Concentration and E&S policy.
viii. Setting of decarbonization targets in Mortgage asset class and other carbon concentrated sectors, where these targets will be incorporated into the Group's strategy and Financial Plan to reach Net-Zero by 2050.

1.3.4. Mitigation Measures (continued)

Green Lending Policy

As a further mitigation measure, BOC PCL has in place a Green Lending Policy which aims to provide the framework and the requirements BOC PCL will implement for the creation of green loans and to support borrowers in financing environmentally sound and sustainable projects. The Policy sets the criteria for a loan to be categorised as "green" which include, among others, clear environmental benefits, environmental sustainability objectives, the processes by which the borrower identifies and manages perceived, actual or potential environmental and social risks associated with the relevant green project(s) etc. To fully operationalise the policy, BOC PCL is in the process of preparing the relevant guidelines, which will provide further guidance on the specific procedures to be followed.

1.3.5. Tools for identification, measurement and management of environmental risks

As already mentioned, MA, Business Environmental Scan and UNEP FI's Impact Analysis Tool are used by BOC PCL to identify and manage any potential environmental risks associated with the operations and the portfolio of BOC PCL. Refer to Section 1.1.1 for more details on BES. Refer to Section 1.3.3 for more details on UNEP FI's impact analysis tools and MA. The Bank is currently developing a stress test framework to incorporate identified climate risks as described in the above Climate Risk Sensitivity and Stress testing section.

1.3.6. Results and outcome of the risk tools implemented

BOC PCL considered the impact of climate-related, acute physical risks from its collateral portfolio in its 2023 ICAAP process and will further incorporate climate-related transition risks in future exercises. In terms of the top-down sensitivity analysis carried out in relation to transition risks, it indicated an immaterial impact on the Group's profitability for the period between 2024 – 2027.

BOC PCL considered the C&E risks financial impact, and in particular transition risks, and how these might affect the BOC PCL's counterparties efforts to meet any C&E requirements from the process of adjustment towards a lower carbon economy.

Stress testing analysis was used to assess the effects on BOC PCL's liquidity, specifically focusing on sectors expected to be impacted by transition risks. Higher outflows were assumed for the deposits of economic sectors which are expected to be more vulnerable to C&E risks and more specifically to transition risk.

Materiality Assessment Results per Risk

The Group has taken several steps to ensure a concrete process by which C&E risks are fully considered and subsequently assessed in order to carry out a robust materiality assessment. When assessing the materiality of C&E risks, a proportionate approach was adopted, focusing only on the most negatively impactful risks. At the same time, it is noted that impacts were assessed on a gross/aggregated basis, by not considering any particular approaches to reduce potential risks.

Moreover, the identified material risks are in the process of being incorporated into all relevant processes of the Risk Management Division including the ICAAP and ILAAP scenario analysis, thus BOC PCL will recognise various mitigation measures to ensure that such risks are controlled to the extent possible.

1.3.6. Results and outcome of the risk tools implemented (continued)

Credit Risk
As part of the credit risk analysis, an assessment of secured (collateralized) and unsecured credit exposures has been performed utilizing quantitative and qualitative methods. The analysis indicated that climate-related physical risks, acute hazards are material due to BOC PCL's significant exposure to high Wildfire risk. With respect to climate-related transition risks, the assessment highlighted the need for attention to risk categories, particularly concerning increased energy and raw material costs, as well as transition to lower-emission technologies. Notwithstanding that most of the environmental risk categories have been assessed as not material, it should be noted that risks related to earthquakes and water scarcity have emerged as material over the long term. The overall score for environmental physical risks has been assessed as non-material for the short term.

Market Risk
For each of the identified C&E risks, a tailored combination of quantitative and qualitative methods was applied. Based on this analysis, climate physical risks, acute hazards were identified as material due to the very high exposure of the REMU portfolio to Wildfire risk. Wildfire has a relatively high impact and occurrence probability, and thus can cause significant direct damage or broad devaluation of REMU properties. Other acute and chronic physical risks pose a non-material level of concern for the REMU portfolio.

The Market Risk in connection with the CVaR of the HQLA portfolio has been assessed through a country heatmap of physical risk and was also identified as a non-material. Other than acute physical climate risks, the remaining C&E risk categories are found to be non-material as well.

Nevertheless, attention should be paid to the elevated Earthquake risk in Cyprus, which might also induce severe depreciation of the REMU portfolio upon realisation of a severe event. Due to the very low likelihood of severe earthquakes, the resulting materiality was however also assessed as non-material. Furthermore, all C&E risks within climate-related transition risks were also assessed non-material mainly because of the potential depreciation of aged REMU real estate assets which lag in terms of energy efficiency and other low-emission standards and certifications. Environmental transition risks are assessed as non-material, but they need to be closely monitored due to potential stricter requirements in terms of environmental standards in the real estate sector.

Liquidity Risk
As part of the liquidity analysis, for each of the identified C&E risks, the combined materiality of the deposits and the value of HQLA portfolio was assessed with a tailored combination of quantitative and qualitative methods. The outcome of the assessment indicated that there are no material C&E risks identified with respect to Liquidity Risk. However, within climate-related physical risks, the acute risk driver Wildfire has been identified as the dominant cause of liquidity issues due to possible simultaneous deposit withdrawals upon a widespread wildfire damage in Cyprus. Similar considerations are held for the environmental acute risk Earthquake, whose likelihood is however extremely improbable for high magnitude events. Chronic physical risks are not relevant for liquidity considerations due to their progressive and long-term character. In terms of transition risks, increased deposit withdrawals might be triggered in the event of very high and volatile costs of energy and raw materials, an aspect which is particularly sensitive for Cyprus because of its high import dependency.

1.3.6. Results and outcome of the risk tools implemented (continued)

Operational Risk
For each of the identified C&E risks, the materiality in connection with the operations of its owned and rented properties and third-party providers was assessed. Based on quantitative geolocation analysis and country physical and climate heatmap exercising, both physical and transitional risks have been assessed accordingly. Although the overall results indicate that C&E risks are non-material for BOC PCL, the need for close monitoring is required to ensure ongoing operational resilience.

Reputational Risk
Reputational Risk may be affected by C&E risks directly or through the realisation of other principal risks, and Strategic, Operational and Legal Risks. BOC PCL's reputation has been assessed in terms of its business operations and other key risk areas that could potentially impact BOC PCL's reputation. Overall, all C&E risks regarding physical and transition risks for Reputational risk have been assessed as non-material. This is the case as BOC PCL has a good prevention and recovery plan in place to minimize risks from acute environmental hazards such as earthquakes. Additionally, BOC PCL's limited exposure in heavy manufacturing sectors reduces its exposure to transition risks. This strategic position aligns BOC PCL with evolving environmental standards and stakeholder expectations, thereby safeguarding its reputation.

Legal and Strategic Risk
The analysis of C&E risks as drivers of Legal and Strategic risk has been performed using qualitative analysis and expert judgment across all C&E risk types. The analysis regarding Legal Risk has been conducted based on various factors including, the regulatory requirements in Cyprus, shifts in consumer behaviour and any technological advancements. The assessment also included considerations of compliance, customer due diligence, and litigation risk. In terms of Strategic Risk, BOC PCL considers its exposure concentration, vulnerabilities and stakeholder engagement to proactively manage and mitigate potential risks to its strategic objectives.

The overarching conclusion indicates that the Legal Risk for BOC PCL is generally low across different C&E risk categories, however, climate-related transition risks are the higher risk from a reputational and legal perspective. It should be noted that BOC PCL has implemented measures such as continuous monitoring, preventive plans, and compliance checks to address potential legal implications arising from C&E factors. Ongoing efforts are directed at minimizing risks and ensuring compliance with evolving standards and regulations. Therefore, BOC PCL does not foresee worsening of the impact of C&E risk drivers over the time and it is expected that this impact will remain Low.

With regards to the Strategic risk, BOC PCL acknowledges that its concentration in Cyprus, with significant exposure to Real Estate, Construction, and Accommodation sectors, makes it vulnerable to the impact of climate-related physical risks, acute risks and primarily wildfire. In addition, most of the collaterals are real estate assets. As such, the impact of physical risks could affect BOC PCL and its customers going forward in terms of the value of these assets, insurance costs, and any associated cost to restore resulting damages from acute physical climate-related hazards. The primary concerns are the potential effects on the value of real estate assets and associated costs for restoring damages. It is expected that the impact of climate-related physical risk drivers will remain material in the future as well. In conclusion, BOC PCL is proactively addressing C&E risk drivers, recognizing their potential impact on strategic risk. BOC PCL is implementing measures, engaging with stakeholders, and adapting its strategies to navigate the evolving landscape of climate and environmental challenges. Ongoing monitoring, customer engagement, and strategic adjustments are integral to BOC PCL's approach in managing these risks effectively.

1.3.6. Results and outcome of the risk tools implemented (continued)

The table 2 below shows the aggregated results of the MA, across the assessed time horizons, with regards to the C&E risks, along with the approach that was used to assess each type of principal risk.

C&E Risks		**Risk**	**Approach**	**Materiality Result**		
				Time Horizons		
				Short-term (1-3 years)	*Medium-term (4-7 years)*	*Long-term (8-27 years)*
Climate-related Risk	Physical Risk	Credit Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	**Material**	**Material**	**Material**
		Market Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	**Material**	**Material**	**Material**
		Liquidity Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Operational Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Reputational Risk	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Legal Risk	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Strategic Risk	Qualitative Analysis (Expert Judgment)	**Material**	**Material**	**Material**
	Transitional Risk	Credit Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Market Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Liquidity Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Operational Risk	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Reputational Risk	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Legal Risk	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Strategic Risk	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material

Table 2: *Overview of the aggregated results of the C&E risk MA*

1.3.6. Results and outcome of the risk tools implemented (continued)

C&E Risks		Risk	Approach	Materiality Result – Time Horizons: *Short-term (1-3 years)*	*Medium-term (4-7 years)*	*Long-term (8-27 years)*
Environmental-related Risk	Physical Risk	Credit	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	**Material**
		Market	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Liquidity	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Operational	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Reputational	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Legal	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Strategic	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
	Transition Risk	Credit	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Market	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Liquidity	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Operational	Quantitative Assessment (Geographical/ Industry Heatmapping)/ Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Reputational	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Legal	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material
		Strategic	Qualitative Analysis (Expert Judgment)	Non-material	Non-material	Non-material

Table 2: *Overview of the aggregated results of the C&E risk MA (continued)*

1.3.7. Data availability, quality and accuracy, and efforts to improve aspects

BOC PCL determined to approach holistically the ESG and Climate Data, by developing an ESG and Climate Data Gap & Strategy. Specifically, BOC PCL

i. Established an ESG Data Working Group.
ii. Set up weekly catch-up calls for the ESG Data Working Group.
iii. Identified Data Gaps under various workstreams (Disclosures, Risk Management, Bank's Commitments, Business Strategy).
iv. Determined the strategy to close the Gaps.
v. Set indicative deadlines to close the gaps.
vi. Discussed with several third-party software providers on ESG and Climate Risk Management platform and Disclosure platform.
vii. Determined the follow up actions on the ESG and Climate Data Gap & Strategy.

BOC PCL acknowledges that the ESG and Climate spectrum is extremely fast pacing, therefore the ESG and Climate Data Gap & Strategy is an ongoing process and further actions are expected to be performed in the future to further enhance the existing ESG and Climate Data Gap & Strategy. The ESG Data Gaps have been identified by focusing to the main ESG risks' workstreams run by BOC PCL as well as strategic priorities:

i. Task Force on Climate related Financial Disclosures (TCFD) requirements (Annual report) - Disclosures
ii. Pillar 3 Disclosures on ESG risks (Six monthly) - Disclosures
iii. Sustainability Performance Report (Monitoring Key Performance Indicators) – Business Objectives
iv. Climate Risk Report (Internal risk reporting) – Risk Management Needs
v. ESG Questionnaires for Due Diligence purposes - Risk Management Needs
vi. Physical Risks & Transition Risks assessment, quantification and management - Risk Management Needs
vii. Bank's Sustainable Finance Framework - Business Objectives
viii. Net Zero by 2050 – Bank's Commitments
ix. Financed Scope 3 GHG emissions estimation of loan portfolio – Disclosures/ Risk Management Needs/Business Objectives

ESG Data Sources to close the ESG Data Gaps:

i. ESG questionnaires (Utilised for customer's Due Diligence)
ii. Customer's disclosures
iii. Third party provider (Acquisition of certain databases)
iv. Public open sources (Online databases)
v. Cyprus Government databases

1.3.7. Data availability, quality and accuracy, and efforts to improve aspects (continued)

Refer to the following table for a summary of the ESG and Climate Data Gap & Strategy.

Financed Scope 3 GHG Emission on Mortgages & Commercial Real Estate				
Field Name	**Level of Data**	**Source Document**	**Data Strategy - New lending**	**Data Strategy - Existing Lending**
Property value at origination	Financed Property	Sales Agreement	Loan origination process	Use Collaterals
GHG Emissions per m^2		EPC		Access to EPC database of the Government
EPC rate		EPC		Access to EPC database of the Government
Floor Area (square meters)		Building permit		Use Collaterals
Under construction / Built		Building permit		Use Collaterals
Year of Construction		Sales Agreement		Use Collaterals
Property type		Building permit/Sales Agreement		Use Collaterals
# of Properties per account number	Account	Sales Agreement		Use Collaterals
Financed Scope 3 GHG Emission on Business Loans				
Total Debt	Account level	Financial Statements	Annual revision	Annual revision
Total Equity		Financial Statements	Annual revision	Annual revision
Total Assets		Financial Statements	Annual revision	Annual revision
Scope 1 GHG Emissions		ESG Questionnaires	Loan Origination	Annual Questionnaire run
Scope 2 GHG Emissions		ESG Questionnaires	Loan Origination	Annual Questionnaire run
Scope 3 GHG Emissions		ESG Questionnaires	Loan Origination	Annual Questionnaire run
Collaterals				
Field Name	**Level of Data**	**Source Document**	**Data Strategy - New lending**	**Data Strategy - Existing Lending**
Physical Risk - Acute	Collateral	Acquired from Vendor	Loan origination through an interactive tool	Existing property collaterals were mapped to physical risks manually. The data should be updated to collateral tables when the fields are ready
Physical Risk - Chronic				
Physical Hazard - Wildfire				
Physical Hazard - Landslide				
Physical Hazard - Sea Level Rise				
Physical Hazard - Flood				
Physical Hazard - Wind Gust				
Physical Hazard Score				
Climate Scenarios				
Climate Scenarios Time Horizon				
Property Use		Sales agreement/Valuation Report	Loan origination	Annual valuation of collaterals

1.3.8. Description of limits to environmental risks

BOC PCL has yet to establish specific limits at the point of loan origination. As also indicated in the same section BOC PCL earmarked exposures identified as vulnerable to transition risk as appropriate to receive transition finance. Furthermore, BOC PCL does have in place certain restrictions in lending as provided by the Environmental and Social Policy which is described below.

Environmental and Social Policy
BOC PCL has in place an Environmental and Social Policy in relation to its lending activities. The Policy is in place since 2015 and is based on the Bank's commitment to applying certain environmental and social (E&S) procedures derived from the policies and guidelines of the European Bank for Reconstruction and Development (EBRD). The policy which is revised annually and is subject to RC approval, applies to:

i. Granting of new funded / non-funded facilities to physical persons or legal entities, secured by mortgage on immovable property.
ii. Granting of new funded facilities to legal entities.

Under this commitment BOC PCL applies a set of measures as described below:

New Lending to physical and legal persons, secured by mortgaged property
BOC PCL verifies acceptable levels of E&S risk as indicated in the relevant section of the Valuation report of the mortgaged property.

New lending to legal entities
In case of funded facilities to legal entities, BOC PCL verifies acceptable levels of E&S risks by:

a) Screening out customers who are carrying out activities that appear on EBRD's «Exclusion and Referral Sectors» list, in order to decide whether:
   - not to finance certain prohibited activities ("Exclusion sectors")
   - to engage in specific activities which are included in "Referral sectors", only after EBRD approval is obtained
   - to avoid lending if there are material E&S risks that cannot be properly assessed.
b) Making an initial assessment for the E&S risk in order to be classified as Low, Medium, or High depending on:
   - The customer's business activity
   - The amount and term of the facility
   - The type of the collateral

For customers assessed as Low Risk, BOC PCL obtains written customer confirmation for proper business conduct, relevant licenses and work permits.

The policy is applicable at the individual exposure level and requires that BOC PCL verifies acceptable levels of environmental risk through, among other:

a) Screening out customers who are carrying out activities that appear on the «Exclusion and Referral Sectors». The Exclusion and Referral sectors include a wide range of activities that can be harmful to the environment or society.
b) Making an initial assessment for the E&S risk based on the customer's business sector and engaging with the customer if assessed as Medium" or "High" to ensure that any identified risks are mitigated.

1.3.8. Description of limits to environmental risks (continued)

For customers assessed as Medium or High, BOC PCL:

a) Obtains written customer confirmation for proper business conduct, relevant licenses and work permits.
b) Requests an E&S Due Diligence Report (E&S Study) by external experts for new lending greater than €100,000 and with duration longer than 6 months. The Due Diligence Report assess social performance as follows:
   - Safety & Health at Work as required by the law
   - Legal entities should indicate whether there were any accidents, complaints or fines imposed by Competent Services on H & S matters and/or on labour issues.
   - Legal entities should declare that it does not employ minors or illegal workers
   - Legal entities should declare that they implement measures for protecting workers from any discrimination and prejudice at the workplace

Any negative findings in the report/ recommendations should be either be resolved before application submission or reported to the approving authority to assess the risk before approving / granting the credit facility.

Concentration Risk Policy
The Concentration Risk Policy captures any single exposure or group of exposures with the potential to produce losses large enough, to threaten the financial institution's health, reputation, or ability to maintain its core operations. This Policy is aligned with the RAF and applies at Group level by defining limits and the methodology for limit setting for exposures in specific assets, liabilities and off-balance sheet items to ensure that the concentration risk is within BOC PCL's Risk Appetite.

Consequently, BOC PCL has introduced lending restrictions and sector limits on carbon intensive sectors, and these have been reflected in the Concentration Risk Policy as mentioned on Section 1.1.1. A limited amount of new lending, unless for green or transition purposes, will be allowed subject to approval by the RC or BOC PCL's highest credit committee.

The restricted sectors relate to certain activities within:

i. Coal Mining
ii. Oil
iii. Gas
iv. Cement
v. Iron & Steel & Aluminium
vi. Power Generation (excluding renewables)

Risk Appetite Framework (RAF)
BOC PCL maintains a RAF which sets out the level of risk that the Group is willing to take in pursuit of its strategic objectives, outlying the key principles and rules that govern the risk appetite setting. It includes qualitative statements as well as quantitative measures expressed relative to Financial and Non-Financial risks. Within this context, three Climate-related KRIs were introduced in its latest revision and include:

i. Financed Scope 3 GHG emissions of Mortgage Portfolio (Retail)
ii. Financing purchases of new commercial properties (Corporates / SMEs)
iii. Financing renovation of commercial properties (Corporates / SMEs)

The KRIs cover both the mortgage and the corporate portfolio and relate to the broader category of "buildings" which are energy intensive during both the construction period and their operation.

1.3.8. Description of limits to environmental risks (continued)

Financed Scope 3 GHG emissions of Mortgage Portfolio
Considering the Financed Scope 3 GHG emissions of mortgages, the mortgage loan portfolio exposure and the regulatory developments it was assessed that the mortgage portfolio of BOC PCL is exposed to transition risks. Therefore, to manage those risks, BOC PCL decided to set decarbonisation target aligned with IEA B2DS and gradually direct its new lending to more energy efficient buildings whilst offer incentives to retrofit buildings with lower energy efficiency in the future. The KRI on decarbonisation target on Mortgage portfolio indicates increased climate transition risk if the portfolio produces GHG emissions which are not aligned with the IEA B2DS decarbonisation pathway.

Financing purchases of new commercial properties / Financing renovation of commercial properties (Corporates / SMEs)
In keeping with the emphasis placed on the built environment, two additional KRIs were introduced to ensure that new lending for commercial properties will only be directed to buildings with EPC class greater than C or in case of building renovations, an improvement in energy performance will be achieved. The indicators are applicable to the corporate entities, which includes SMEs and large corporates, and reflects the material portfolios of BOC PCL, namely those under Construction, Accommodation & Food Service and Real Estate.

2. Social Risk

2.1 Business strategy and processes

2.1.1 Business strategy to integrate social factors and risks

The Group identifies and examines the main societal needs that should be integrated in its annual Corporate and Social Responsibility (CSR) strategy and CSR budget. The Social needs and risks identified, constitute the CSR Pillars in which all the Group's actions and partnerships fall under. The main pillars of CSR strategy for 2024 are Health, Education and Environment. The CSR Strategy is driven by the ESG strategy of the Group. The Group, in its ESG Strategy, has identified the Sustainable development goals that is focusing as it can have an impact based on its business environment and business strategy on social risks and needs:

i. Good Health and Well-Being
ii. Quality Education
iii. Gender Equality
iv. Decent Work and Economic Growth
v. Industry, Innovation and Infrastructure
vi. Sustainable Cities and Communities
vii. Responsible consumption and production
viii. Climate action
ix. Life below water
x. Partnership for the Goals

2.1.2 Objectives, targets and limits

The Group's objectives and targets under each Sustainable development goal relating to social needs and risks and their linkage with UN Global Compact is summarised in the table below:

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
3	**Good Health and Well-Being**	Ensure healthy lives and promote well-being for all at all ages.	3.6 Reduce the number of deaths and injuries from road traffic accidents	Hours of Training Provided in relation to Health and Safety provided to BOC employees	The Actions performed by the Group under SDG 1 support and respect the protection of internationally proclaimed human rights through provision of access to health or support relevant health organizations. Therefore, there is a direct linkage with UN Global Compact – Principle 1.
				Number of events organised on Road Safety with total number of participants	
			3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable	Number of patients benefited from Bank's BOC actions	

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
			essential medicines and vaccines for all		
4	**Quality Education**	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	4.3 Ensuring equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.	Number of employees have attended on trainings per level, gender, department and training subject. Total hours of training per level, gender	The Actions performed by the Group under SDG 4 support equal opportunities to boys and girls to be educated and to have a broader and more skilled pool of workers in the future. Therefore, there is a direct linkage with UN Global Compact – Principle 1.
			4.4 Increasing substantially the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.	Total investment of new lending in education sector (in €)	
			4.5 Eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations	Total investment in scholarships granted per gender (in €)	
			4.7 Ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for	Number of individuals that participated in trainings provided through the Bank of Cyprus CSR Actions in pillar Education divided	

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
			sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development	per subject per gender	
5	**Gender Equality**	Achieve gender equality and empower all women and girls.	5.1 End all forms of discrimination against all women and girls everywhere	Number of promotions per gender, per annum Total hours of training per level, gender	The actions performed by the Group under SDG 5 is linked with UN Global Compact Principle 6. The actions keep up to date records and monitoring of recruitment, promotions, and trainings in a transparent basis.
			5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.	% of women participation in the Board of Directors and Senior Management Personnel Total hours of training per level per gender	
8	**Decent Work and Economic Growth**	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	8.9 Devising and implementation of policies to promote sustainable tourism that creates jobs and promotes local culture and products.	Steadily increase the transition finance provided to Accommodation industry Set decarbonization targets in Financed Scope 3 GHG emissions associated with the loan portfolio under the NACE sector of	The Actions performed by the Group under SDG 8 are aligned with Principle 6 of the UN Global Compact as those promote equal access to opportunities for occupation by creating new positions in the market and expanding the online services

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
				Accommodation and Food Service activities Establish ESG scorecards in the loan origination process	for access in rural areas. In addition, the actions contribute to Principle 1 as protects the economic livelihood of local communities.
			8.10 Strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.	Percentage (%) of transactions carried out through digital networks and other electronic solutions	
			Well at work programme includes webinars, team building events, family events and other activities with the sole purpose to enhance physical, mental, financial and social health of the employees.	Continue supporting and engaging employees under our wellbeing program "Well at Work"	
9	**Industry, Innovation and Infrastructure**	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.	9.1 Development of quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.	Percentage (%) of transactions carried out through digital networks and other electronic solutions	The Actions performed by the Group under SDG 9 are aligned with Principle 6 of the UN Global Compact as those promote equal access to opportunities for occupation by creating new positions in the market and expanding the

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
			9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.	Total amount of small-scale/ SME loan portfolio to total loan portfolio (YoY change)	online services for access in rural areas. In addition, the actions contribute to Principle 1 as protects the economic livelihood of local communities.
			9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.	Steadily increase the transition finance provided to customers Set decarbonization targets in Financed Scope 3 GHG emissions associated with the loan portfolio Establish ESG scorecards in the loan origination process	
11	**Sustainable Cities and Communities**	Make cities and human settlements inclusive, safe, resilient and sustainable.	11.1 Ensuring access for all to adequate, safe and affordable housing and basic services.	% of small-scale/SME loan portfolio to total loan portfolio (YoY change)	The actions under SDG 11 contribute to Principle 1 of UN Global Compact as enhance and protect the livelihood of local communities and rural areas.
			11.4 Strengthening efforts to protect and safeguard the world’s cultural and natural heritage.	Total number of CSR Activities/Actions aiming to improve the resource's use and the reduction of pollution and poverty, safeguard the world’s cultural and natural heritage.	

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
			11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.	Steadily increase the transition finance provided to customers Set decarbonization targets in Financed Scope 3 GHG emissions associated with the loan portfolio Establish ESG scorecards in the loan origination process	
			11.A Supporting positive economic, social and environmental links between urban, per-urban and rural areas by strengthening national and regional development planning.	Total amount in € donated to charities and local authorities to support vulnerable groups resulting from national and natural disasters, and to prevent them.	
12	**Responsible Consumption and Production**	Ensure sustainable consumption and production	12.2 Sustainable management and efficient use of natural resources achievement.	Percentage (%) of increase to clean energy, by the Bank, year by year	The actions under SDG 12 contribute to Principles 7, 8 and 9 of UN Global Compact as support the action towards environmental responsibility.
			12.5 Substantial waste generation reduction through prevention, recycling and reuse.	Percentage (%) of reduction of paper usage (tonnes/year)	
			12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into	Steadily increase the transition finance provided to customers Set decarbonization targets in Financed Scope 3 GHG emissions	

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
			their reporting cycle.	associated with the loan portfolio Establish ESG scorecards in the loan origination process	
			12.B Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products.	Steadily increase the transition finance provided to Accommodation industry Set decarbonization targets in Financed Scope 3 GHG emissions associated with the loan portfolio under the NACE sector Accommodation and Food Service activities Establish ESG scorecards in the loan origination process	
13	**Climate action**	Take urgent action to combat climate change and its impacts	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.	Number of individuals that had participated in trainings provided through the Bank's CSR actions in pillar Environment divided per subject per gender (e.g. fire-fighting training, etc) Total number of CSR activities/ actions aiming to improve the	The actions under SDG 12 contribute to Principles 7, 8 and 9 of UN Global Compact as support the action towards environmental responsibility.

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
				reduction of forest fires prevention, sea pollution and biodiversity protection	
			13.2 Integrate climate change measures into national policies, strategies and planning.	Percentage (%) of electricity consumption decrease: % of electricity Consumption derived from ecofriendly sources or renewable sources of energy per total electricity consumption Scope 1 and Scope 2 GHG emissions to be reduced by 42% to become carbon Neutral by 2030	
			13.3 Improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.	Total training hours on ESG and climate matters	
14	**Life Below Water**	Conserve and sustainably use the oceans, seas and marine resources for sustainable development	14.1 Prevention and significant marine pollution reduction of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.	Total number of CSR activities/ actions aiming to improve the reduction of sea pollution	The actions under SDG 12 contribute to Principles 7, 8 and 9 of UN Global Compact as support the action towards

SDG #	SDG goal	SDG Description	SDG Target	KPIs	UN Global Compact
			14.2 Sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.		environmental responsibility.
15	**Partnerships for the Goals**	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	17.14 Enhance policy coherence for sustainable development.	Number of partnerships established each year with NGOs, corporations, associations and governmental services	
			17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnership.		

The Group's aspiration to achieve a representation of at least 30% women in Group's management bodies (Defined as the EXCO and the Extended EXCO) by 2030, has been reached earlier with 33% representation of women, as at 31 December 2023, in Group's management bodies. Women representation in Group management bodies continue to be 33% as at 30 June 2024.

2.1.3 Engagement with counterparties

Social risk assessment at loan origination
As indicated under the environmental risks Section in 1.3.3 the Bank has implemented an ESG questionnaire within the context of its underwriting processes.

It is noted that very few companies in Cyprus are obliged to publish Sustainability reports. Under the EU Non-Financial Reporting Directive (NFRD) very limited number of entities in Cyprus met the Directive's criteria so there was no need to publish Sustainability reports. The EU Corporate Sustainability Reporting Directive (CSRD), apart from entities that are already within the scope of NFRD, will apply for large corporates for financial years starting 1 January 2025 and for listed small and medium sized entities for financial years starting 1 January 2026. Therefore, from 2026 and 2027 onwards better data availability and quality is expected to derive from the loan origination process.

Environmental and Social Policy
Similarly, as described under Section 1.3.8 Description of limits to environmental risks an Environmental and Social Policy is in place in relation to its lending activities which requires to ensure acceptable of E&S risks. Examples of activities that are excluded through the policy relevant to social risks are:

i. Activities involving child or forced labour, or violations of human rights
ii. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
iii. Forced evictions

Sourcing and Procurement & Vendor Management Policy
Under the Sourcing and Procurement & Vendor Management Policy the Bank established specific ESG criteria that the vendors or suppliers must adhere to. Specifically, suppliers must adhere all the principles regarding Labour, Human rights, ethics, working conditions and Health & Safety matters.

Labour / Human Rights / Ethics

i. Suppliers must respect internationally recognized human rights in all areas of operation.
ii. Suppliers should take actions to remedy adverse human rights impact.
iii. Suppliers must ensure that child and underage labour is not used, in accordance with the ILO Minimum Age Convention.
iv. Suppliers should not engage forced labour, slave labour, or any other non-voluntary labour and should treat all employees with respect and dignity, in accordance with the ILO Forced Labour Convention (No 29) and the Abolition of Forced Labour Convention (No 105).
v. Supplier standards should cover the prohibition of discrimination regarding grounds of discrimination (e.g., age, gender, and ethnic origin) and aspects of employment (e.g., recruitment, promotion, and remuneration).

Working Conditions

i. Suppliers should provide all employees with at least the minimum wage according to the national legislation.
ii. Suppliers must ensure that wages meet legally mandated minimums and industry standards, without unauthorized deductions.
iii. Suppliers must respect the right to freedom of association and collective bargaining of their employees.
iv. Suppliers must ensure that working hours are in accordance with the national legislation.
v. Suppliers should ensure that employees under the age of eighteen will not be engaged in hazardous or heavy work.

2.1.3. Engagement with counterparties (continued)

Health & Safety
Suppliers should comply with Health and Safety requirements, providing a healthy and safe working environment to their employees, adhering to all relevant Health & Safety laws and regulations.

2.2 Governance

2.2.1 Responsibilities of the management body for setting the risk framework

The Sustainability Committee as described under Section 1.2.1 Responsibilities of the management body has the oversight of the totality of the ESG agenda of the Group. The same governance arrangements remain in relation to the interaction with the Board as well.

2.2.2 Integration of measures to manage social factors and risks in internal governance arrangements

The Group has dedicated resources for the handling of ESG issues as described under Section 1.2.2 Integration of measures to manage environmental factors and risks in internal governance arrangements.

2.2.3 Lines of reporting

The Bank established Sustainability performance report which monitors the performance of the Bank against Social and Governance targets. For more details refer to Section 1.2.3 Lines of reporting.

2.2.4 Alignment of the remuneration policy with institution's social risk-related objectives

For the alignment of the remuneration policy with the Group’s social risk refer to Section 1.2.4 Alignment of the remuneration policy with institution's environmental risk-related objectives.

2.3 Risk Management

2.3.1 Tools, identification, measurement, monitoring and mitigation of social risks

The UNEPFI's Impact Analysis Tool has been employed to obtain insights on both the potential positive and negative impacts of BOC PCL's portfolio. The outcome of this analysis is presented under the environmental risks section. Additional work is expected to be carried out going forward aiming to identify social risks faced by BOC PCL through its counterparties, the relevant transmission mechanisms to traditional risks and the implementation of limits where deemed.

BOC PCL is also in the process of incorporating ESG factors within the context of its underwriting processes amending its policies and procedures in such a way that potential impact from ESG is reflected in the fundamental elements of the creditworthiness assessment i.e., in repayment capacity and collateral assessment. In addition, BOC PCL's Lending Policy, as part of determining the creditworthiness of legal entities, requires that the borrower's exposure to ESG factors is assessed. This is a general guideline rather than a prescriptive process. Furthermore, the E&S policy allows BOC PCL to monitor new lending for socials issues as indicated below:

i. Safety & Health at Work as required by the law.
ii. Legal entities should indicate whether there were any accidents, complaints or fines imposed by Competent Services on H & S matters and/or on labour issues.
iii. Legal entities should declare that it does not employ minors or illegal workers.
iv. Legal entities should declare that they implement measures for protecting workers from any discrimination and prejudice at the workplace.

Recognition of Social issues in the ESG Client Questionnaires

As mentioned earlier in the environmental risks section, the Bank has developed ESG client questionnaires to identify and assess ESG matters as part of its ESG Due Diligence process. BOC PCL assesses the ability of clients to meet the social criteria based on current and upcoming regulatory requirements such as Corporate Sustainability Due Diligence Directive, United Nations Guiding Principles on Business and Human Rights etc. Therefore, the Bank has incorporated into its ESG questionnaires the following social risk aspects:

i. Human rights: Sub-areas relating to fundamental principles and rights at work, the presence of any policies related to affected communities, allegations by on human rights as well as an anti-competitive conduct
ii. Workforce: Sub-areas relating to workforce training and skills development, stakeholder engagement and gender equality

Sustainable Finance Framework

The Bank recognises the importance of social related aspects for both the community and its workforce, thus it incorporates those aspects into its Sustainable Finance Framework released in April 2023. Social Bonds/Loans for which the funds raised are exclusively allocated to eligible social projects including access to essential services (healthcare), employment generation and SME financing are being selected and managed based on the E&S policy of the Bank. The Bank will gradually broaden its scope to also consider social related risks and aims to have all material ESG risks incorporated in its overall Risk Management Framework.

2.3.1 Tools, identification, measurement, monitoring and mitigation of social risks (continued)

CSR actions in 2024:

Health pillar main actions:

i. More than 50,000 patients have been treated at the Bank of Cyprus Oncology Centre since its establishment by BOC PCL and the Cyprus Government in 1998, while the Group continued offering extensive support, financial and otherwise, towards the Centre. The cumulative contribution of the Group to the Bank of Cyprus Oncology Centre is approximately €70 million.

ii. The Group coordinated for one more year the fundraising campaign with the Cyprus Anticancer Society (CAS). In 2024, the Group repeated its provision of financial and other medical support to families in need through key NGOs, based on the Donations, Sponsorships and Partnerships Policy, and within the SupportCY network. Additionally, the Group partners work with, and support several Patient Associations.

Education pillar main actions:

i. The Bank of Cyprus Cultural Foundation ('the Foundation') is a nonprofit organisation established in 1984, protecting cultural heritage and supporting youth, curating two museums and five rare collections. The main strategic objectives of the Foundation are the promotion of research, the study of Cypriot culture in the fields of archaeology, history, art and literature, the preservation and dissemination of the cultural and natural heritage of Cyprus, with particular emphasis on the international promotion of the long-standing Greek culture on the island, the shift to research and development of cultural sustainability through European grants and the upgrading and promotion of the educational role of the Foundation. In addition, the Foundation is developing and upgrading the institution's social role for vulnerable/disadvantaged groups, aiming at permanent changes/adaptations in its museums and actions that promote and facilitate the participation of all vulnerable/disadvantaged groups in culture. The Foundation's premises and museums were closed from March 2024 to June 2024 for renovation purposes so to launch the new exhibition 'Cyprus Insula' from 4 July 2024 to 30 June 2025.

ii. In 2024, IDEA continued to foster innovative entrepreneurship through its 9th cycle of the Startup Program. The comprehensive business-creation training Program built upon the successful framework of last year's redesign, incorporating current trends to enhance efficiency and empower entrepreneurs. Through its extensive panel of more than 80 high-profile mentors and trainers working pro-bono, participating startups closely collaborate with industry experts to receive feedback, mentoring, consultation, and professional services. This year, the Center received 87 applications from 11 countries across 3 continents. Out of these, 6 promising teams were selected to join the Program, bringing the total number of supported startups to an impressive 95 over 9 years

iii. In 2024, the Group repeated the partnerships with various organisations to boost efforts around education, innovation and ingenuity. Additionally, the Group awards excellence and creativity among students, but also recognises students who stand out in international and local competitions, through awards and prizes. The Group also awarded talented youth in sports, through sport associations and academies.

iv. In 2023, the Group announced the 'Mathainoume Allios' (Update your skills) programme promoting economic and digital literacy which is continued in 2024. The programme is geared at senior citizens, but also any member of the public wishing to learn in simple terms and with images how to carry out their banking transactions easily by making use of the available technology and digital tools, through a series of presentations to municipalities and communities.

2.3.1 Tools, identification, measurement, monitoring and mitigation of social risks (continued)

v. Road Safety is one more sub-pillar in Education that the Group is actively involved, through the organisation and support of campaigns such as friendly tire and mechanical inspections on vehicles, and activities in schools on road safety education, in partnership with expert NGOs, the Police and the Ministry of Transportation.

Environmental pillar main actions:

i. The 'Melissa Zoi' Centre, a bee artificial insemination project for biodiversity, was inaugurated in June 2022, by BOC PCL and the Rotary Clubs of Cyprus. The initiative aims to revitalise the environment and restore economic activity to areas where honey is produced, and which were devastated by wildfires. The 2021 wildfires affected about 75% of beehives so the project aims to revive the destroyed ecosystem, revitalising the affected honey-producing communities. The goal is to provide the necessary support to nature and to the communities that suffer environmentally, financially and professionally. The Centre's operation will benefit nine communities and 38 small and medium-sized honey-making businesses.
ii. 'Seammahia', a joint Sea Venture, is a project funded by BOC PCL and includes the study and installation of two pilot systems for monitoring the quality of sea water; one in the area of the Ayia Napa Marina and one in the Blue Lagoon (Akamas peninsula) in Cyprus. The purpose is to monitor and record important water quality parameters in real time, for the provision of early detection of pollution indices, which in turn will provide warnings for necessary corrective actions to ensure environmental protection.
iii. The Bank of Cyprus SupportCY network of businesses and organizations joined forces and supported the Forest Department and the Cyprus Fire Services in the prevention and protection of Cypriot forests. Prevention measures and actions related to public awareness on the protection of forests, as well as fire protection programmes in the forests of Cyprus, were launched in the summer of 2023. Based on official statistical surveys, prevention is the most important factor in the protection of forests. A series of forest patrols has been programmed by the SupportCY Volunteers Corps and the Crises and Disasters Centre. Concurrently, educational and informative actions have been planned in shopping centres and rural municipalities with the collaboration of the Forest Department.
iv. Members of the SupportCY Volunteers Corps flew to Greece immediately after the deadly floods in the Larissa area to help the locals with the water pumping from buildings and houses. More specifically, with the use of their own pumps, SupportCY volunteers pumped tons of water out of the local elementary school, and in return students and teachers at the school organised an emotional ceremony, one month after the floods, to thank and honour them.

3. Governance Risk

3.1 Governance

The Sustainability Committee as described under the Section 1.2.1 has the oversight of the ESG agenda of the Group. The same governance arrangements remain in relation to the interaction with the Board as well.

It is noted that very few companies in Cyprus are obliged to publish Sustainability reports. Under the EU Non-Financial Reporting Directive (NFRD) very limited number of entities in Cyprus met the Directive’s criteria so there was no need to publish Sustainability reports. The EU Corporate Sustainability Reporting Directive (CSRD), apart from entities that are already within the scope of NFRD, will apply for large corporates for financial years starting 1 January 2025 and for listed small and medium sized entities for financial years starting 1 January 2026. Therefore, from 2026 and 2027 onwards better data availability and quality is expected to derive from the loan origination process.

Nevertheless, BOC PCL expects to collect information on counterparty governance matters through the process of incorporating ESG factors in the underwriting processes. In terms of governance issues, questions on board and executive committees will be included (composition and meetings), the publication of board committee members in its public disclosures and the interaction of the internal audit function with the audit committee. In case any type of sustainability reporting is produced, this it will be collected as part of this process. Currently, the Vendor management and procurement policy considers the governance of counterparties, e.g., suppliers.

Additionally, the Group strengthens its governance framework with a number of policies i.e. the Conflicts of Interest Policy, the Antibribery and Corruption Policy, the Whistleblowing Policy.

3.2 Risk Management

BOC PCL is also in the process of incorporating ESG factors within the context of its underwriting processes amending its policies and procedures in such a way that potential impact from ESG is reflected in the fundamental elements of the creditworthiness assessment i.e., in repayment capacity and collateral assessment. Through this process, counterparty governance information will be collected.

Recognition of Governance issues in the ESG Client Questionnaires

As mentioned earlier in Section 1.2.1, BOC PCL has developed ESG client questionnaires to identify and assess ESG matters as part of its ESG Due Diligence process. BOC PCL has incorporated the following governance aspects into its ESG questionnaires:

i. Corporate Social Responsibility: Sub-areas relating to governance, CSR strategy, ESG policies and the overall management of climate change and sustainability issues
ii. Management: Sub-areas relating to board composition, board sustainability committee, reporting and disclosures

In addition, BOC PCL's Lending Policy as part of determining the creditworthiness of legal entities requires that the following are assessed:

i. Qualitative elements, such as the customer's corporate governance (for example delegation of authority checks and balances, accountability, strategy formulation, managerial skills, succession, commitment of shareholders, pricing power of the company in the marked etc.) including dividend policy, compliance with audit requirements for financial accounts and compliance with tax obligations.
ii. The borrower's exposure to ESG factors. This is a general guideline rather than a prescriptive process.