Interim Financial Report 2023

Bank of Cyprus Holdings

Contents

Board of Directors and Executives
as at 08 August 2023

Board of Directors of Bank of Cyprus Holdings Public Limited Company	Efstratios-Georgios Arapoglou CHAIRMAN Lyn Grobler VICE-CHAIRPERSON Panicos Nicolaou Constantine Iordanou Eliza Livadiotou Ioannis Zographakis Maria Philippou Nicolaos Sofianos Paula Hadjisotiriou
Executive Committee	Panicos Nicolaou CHIEF EXECUTIVE OFFICER Dr. Charis Pouangare DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF OF BUSINESS Eliza Livadiotou EXECUTIVE DIRECTOR FINANCE Demetris Th. Demetriou CHIEF RISK OFFICER Irene Gregoriou EXECUTIVE DIRECTOR PEOPLE & CHANGE George Kousis EXECUTIVE DIRECTOR TECHNOLOGY & OPERATIONS
Company Secretary	Katia Santis
Legal Advisers as to matters of Irish Law	Arthur Cox
Legal Advisers as to matters of English and US Law	Sidley Austin LLP
Legal Advisers as to matters of Cypriot Law	Chryssafinis & Polyviou LLC
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This document contains certain forward-looking statements which can usually be identified by terms used such as 'expect', 'should be', 'will be' and similar expressions or variations thereof or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Bank of Cyprus Holdings Group's (the Group) near term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group's future results of operations, financial condition, expected impairment charges, the level of the Group's assets, liquidity, performance, prospects, anticipated growth, provisions, impairments, business strategies and opportunities. By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend upon circumstances, that will or may occur in the future. Factors that could cause actual business, strategy and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group include, but are not limited to: general economic and political conditions in Cyprus and other European Union (EU) Member States, interest rate and foreign exchange rate fluctuations, legislative, fiscal and regulatory developments and information technology, litigation and other operational risks, adverse market conditions, the impact of outbreaks and epidemics or pandemics, such as the COVID-19 pandemic. The Russian invasion of Ukraine has led to heightened volatility across global markets and to the coordinated implementation of sanctions on Russia, Russian entities and nationals. The Russian invasion of Ukraine has caused significant population displacement, and if the conflict continues, the disruption will likely increase. The scale of the conflict and the extent of sanctions, as well as the uncertainty as to how the situation will develop, may have significant adverse effects on the market and macroeconomic conditions, including in ways that cannot be anticipated. This creates significantly greater uncertainty about forward-looking statements. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward-looking statements. Changes in reporting frameworks and accounting standards, including the recently announced reporting changes and the implementation of IFRS 17 'Insurance Contracts', may have a material impact on the way we prepare our financial statements and (with respect to IFRS 17) may negatively affect the profitability of the Group's insurance business. The forward-looking statements made in this document are only applicable as at the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this document to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which any statement is based.

Non-IFRS performance measures

Bank of Cyprus Holdings Public Limited Company's (the Company) management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the Interim Financial Report as they enable the readers to identify a more consistent basis for comparing the Group's performance between financial periods and provide more detail concerning the elements of performance which management are directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which the operating targets are defined and performance is monitored by the Group's management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as the key measures of the 30 June position. Refer to 'Alternative Performance Measures Disclosures' on pages 179 to 191 of the Interim Financial Report for the six months ended 30 June 2023 for further information, reconciliations with Consolidated Condensed Interim Financial Statements and calculations of non-IFRS performance measures included throughout this document and their reconciliation to the most directly comparable IFRS measures.

The Interim Financial Report for the six months ended 30 June 2023 is available on the Group's website www.bankofcyprus.com (Group/Investor Relations) (the Group's website).

The Interim Financial Report for the six months ended 30 June 2023 is originally issued in English. The Greek translation of the Interim Financial Report for the six months ended 30 June 2023 will be available on the Group's website by 11 August 2023. In case of a difference or inconsistency between the English document and the Greek document, the English document prevails.

The Interim Financial Report relates to Bank of Cyprus Holdings Public Limited Company (the Company) and together with its subsidiaries the Group, which was listed on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE) as at 30 June 2023.

Activities

The Company is the holding company of the Group and of Bank of Cyprus Public Company Ltd (BOC PCL or the Bank). The principal activities of BOC PCL and its subsidiary companies involve the provision of banking, financial, and insurance services and the management and disposal of property predominately acquired in exchange of debt.

All Group companies and branches are set out in Note 35 to the Consolidated Condensed Interim Financial Statements. The Group has established branches in Greece. There were no acquisitions of subsidiaries and no material disposals of subsidiaries during the six months ended 30 June 2023. Information on Group companies and acquisitions and disposals during the period are detailed in Note 35 to the Consolidated Condensed Interim Financial Statements.

Group financial results on the underlying basis

The main financial highlights for the six months ended 30 June 2023 are set out below:

Consolidated Condensed Interim Income Statement on the underlying basis

€ million	Six months ended 30 June	
	2023[1]	2022[1,2] (restated)
Net interest income	**358**	145
Net fee and commission income	**90**	94
Net foreign exchange gains and net gains/(losses) on financial instruments	**21**	3
Net insurance result	**25**	24
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	**5**	7
Other income	**12**	9
Total income	**511**	282
Staff costs	**(93)**	(95)
Other operating expenses	**(69)**	(69)
Special levy on deposits and other levies/contributions	**(18)**	(17)
Total expenses	**(180)**	(181)
Operating profit	**331**	101
Loan credit losses	**(24)**	(23)
Impairments of other financial and non-financial assets	**(30)**	(13)
Provisions for pending litigations, regulatory and other matters (net of reversals)	**(14)**	(1)
Total loan credit losses, impairments and provisions	**(68)**	(37)
Profit before tax and non-recurring items	**263**	64
Tax	**(40)**	(11)
Profit attributable to non-controlling interests	**(1)**	(1)
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**222**	52
Advisory and other transformation costs - organic	**(2)**	(5)
Profit after tax - organic (attributable to the owners of the Company)	**220**	47
Provisions/net loss relating to NPE sales	**-**	(0)
Restructuring and other costs relating to NPE sales	**-**	(1)
Restructuring costs - Voluntary Staff Exit Plan (VEP)	**-**	(3)
Profit after tax (attributable to the owners of the Company)	**220**	43

1. The financial information is derived from and should be read in conjunction with the accompanied Consolidated Condensed Interim Financial Statements.
2. On 1 January 2023 the Group adopted IFRS 17 'Insurance contracts' which replaced IFRS 4 'Insurance contracts'. 2022 comparative information has been restated to reflect the impact of IFRS 17. For further details refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements.

Group financial results on the underlying basis (continued)

Consolidated Condensed Interim Income Statement on the underlying basis (continued)

Key Performance Ratios	**Six months ended 30 June**	
	2023	2022[1] (restated)
Net interest margin (annualised)	**3.17%**	1.32%
Cost to income ratio	**35%**	64%
Cost to income ratio excluding special levy on deposits and other levies/contributions	**32%**	58%
Operating profit return on average assets (annualised)	**2.6%**	0.8%
Basic earnings per share attributable to the owners of the Company (€ cent)[2]	**49.4**	9.5
Return on tangible equity (ROTE)	**24.0%**	4.9%

1. On 1 January 2023 the Group adopted IFRS 17 ' Insurance contracts', which replaced IFRS 4 'Insurance contracts'. 2022 comparative information has been restated to reflect the impact of IFRS 17. For further details refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements.
2. The diluted earnings per share attributable to the owners of the Company as at 30 June 2023 amounted to 49.3 cents in Euro (€).

Consolidated Condensed Interim Balance Sheet on the underlying basis

€ million	**30 June 2023[1]**	31 December 2022[1,2] (restated)
Cash and balances with central banks	**9,127**	9,567
Loans and advances to banks	**432**	205
Debt securities, treasury bills and equity investments	**3,330**	2,704
Net loans and advances to customers	**10,008**	9,953
Stock of property	**946**	1,041
Investment properties	**74**	85
Other assets	**1,790**	1,734
Total assets	**25,707**	25,289
Deposits by banks	**449**	508
Funding from central banks	**2,004**	1,977
Customer deposits	**19,166**	18,998
Debt securities in issue	**292**	298
Subordinated liabilities	**309**	302
Other liabilities	**1,244**	1,157
Total liabilities	**23,464**	23,240
Shareholders' equity	**1,984**	1,807
Other equity instruments	**236**	220
Total equity excluding non-controlling interests	**2,220**	2,027
Non-controlling interests	**23**	22
Total equity	**2,243**	2,049
Total liabilities and equity	**25,707**	25,289

1. The financial information is derived from and should be read in conjunction with the accompanied Consolidated Condensed Interim Financial Statements.
2. On 1 January 2023 the Group adopted IFRS 17 'Insurance contracts' which replaced IFRS 4 'Insurance contracts'. 2022 comparative information has been restated to reflect the impact of IFRS 17. For further details refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements.

Group financial results on the underlying basis (continued)

Consolidated Condensed Interim Balance Sheet on the underlying basis (continued)

Key Balance Sheet figures and ratios	**30 June 2023**	31 December 2022[1,2] (restated)
Gross loans (€ million)	**10,277**	10,217
Allowance for expected loan credit losses (€ million)	**288**	282
Customer deposits (€ million)	**19,166**	18,998
Loans to deposits ratio (net)	**52%**	52%
NPE ratio	**3.6%**	4.0%
NPE coverage ratio	**78%**	69%
Leverage ratio	**8.5%**	7.8%
Capital ratios and risk weighted assets		
Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)	**16.0%**[3]	15.2%
Total capital ratio (transitional)	**21.1%**[3]	20.4%
Risk weighted assets (€ million)	**10,257**	10,114

1. On 1 January 2023 the Group adopted IFRS 17 'Insurance contracts' which replaced IFRS 4 'Insurance contracts'. 2022 comparative information has been restated to reflect the impact of IFRS 17. For further details refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements.
2. The capital ratios have been restated to take into consideration the dividend in respect of the FY2022 earnings. More information is provided in 'Capital Base' under the 'Balance Sheet Analysis' section below.
3. Includes reviewed profits for the six months ended 30 June 2023 and is net of dividend accrual (refer to section 'Balance Sheet Analysis – Capital Base' below).

Commentary on underlying basis

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

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

Throughout the Interim Management Report, financial information in relation to the year ended 31 December 2022 financial information has been restated to reflect the transition to IFRS 17 which was adopted on 1 January 2023 and applied retrospectively. As a result, such 2022 financial information, ratios and metrics are presented on a restated basis unless otherwise stated. Further information on the impact of IFRS 17 transition is provided below and in Note 3.3.1 of the Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023.

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

Group financial results on the underlying basis (continued)

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

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

- The removal of the present value of in-force life insurance contracts ('PVIF') asset including the associated deferred tax liability, resulting in a reduction of €101 million in the Group's total equity.
- The remeasurement of insurance assets and liabilities (including the impact of the contractual service margin ('CSM')) resulting in an increase in the Group's equity by €49 million.

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

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

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

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

Group financial results on the underlying basis (continued)

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

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

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

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

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

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

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

Group financial results on the underlying basis (continued)

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

- Advisory and other transformation costs of €2 million included in *'Other operating expenses*' under the statutory basis are separately presented under the underlying basis since they comprise mainly fees to external advisors in relation to the transformation programme and other strategic projects of the Group.

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

Balance Sheet Analysis

Capital Base

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

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

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios was phased-in gradually, with the impact being fully phased-in (100%) by 1 January 2023. The final phasing-in of the impact of the impairment amount from the initial application of IFRS 9 was approximately 65 basis points on the CET1 ratio on 1 January 2023. In addition, a prudential charge in relation to the onsite inspection on the value of the Group's foreclosed assets is being deducted from own funds since June 2021, the impact of which is 17 basis points on Group's CET1 ratio as at 30 June 2023.

The **Total Capital ratio** stood at 21.1% as at 30 June 2023, compared to 20.4% as at 31 December 2022, as r estated. As at 30 June 2023, Existing Capital Securities (for further details refer to 'Other equity Instruments' se ction below) of a nominal amount of approximately €8 million are included in Total Capital, the impact of which i s approximately 8 basis points on the Total Capital ratio. For CRR purposes a payout of 50% of the Group's adju sted recurring profitability for the period, the high-end of the payout range of the Group's approved dividend policy is prescribed, corresponding to a Total Capital Ratio ratio of 20.7% as at 30 June 2023.

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

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

Group financial results on the underlying basis (continued)

Balance Sheet Analysis(continued)

Capital Base (continued)

The Group's minimum phased-in CET1 capital ratio requirement as at 30 June 2023 is set at 10.26%, compared to the previous level of 10.10% in 2022, comprising a 4.50% Pillar I requirement, a 1.73% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of approximately 0.02%. The Group's minimum phased-in Total Capital ratio requirement is set at 15.10%, compared to the previous level of 15.03% in 2022, comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a 3.08% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of approximately 0.02%. The ECB has also maintained the non-public guidance for an additional Pillar II CET1 buffer (P2G) unchanged compared to the previous year.

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

Own funds held for the purposes of P2G cannot be used to meet any other capital requirements (Pillar I, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice.

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

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

Resumption of dividend payments

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

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

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

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

Dividend policy

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

Group financial results on the underlying basis (continued)

Balance Sheet Analysis(continued)

Capital Base (continued)

Other equity instruments

At 30 June 2023, the Group's other equity instruments relate to Additional Tier 1 Capital Securities (the 'AT1 securities') and amounted to €236 million.

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

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

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

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

At the same time, the Company invited the holders of its outstanding €220 million Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities callable in December 2023 (the 'Existing Capital Securities') to tender their Existing Capital Securities at a purchase price of 103% of the principal amount. The Company received valid tenders of approximately €204 million in aggregate principal amount, or approximately 93% of the outstanding Existing Capital Securities, all of which were accepted by the Company. As a result, a cost of approximately €7 million was recorded directly in the Company's equity during the six months ended 30 June 2023, forfeiting the relevant future coupon payments. Transaction costs of €3.5 million in relation to the transactions were recorded directly in equity in June 2023. Existing Capital Securities of approximately €16 million in aggregate principal amount remain outstanding as at 30 June 2023. In July 2023, the Company purchased in the open market Existing Capital Securities of a nominal value of approximately €7 million, further reducing the outstanding nominal amount of the Existing Capital Securities to approximately €8 million.

Legislative amendments for the conversion of DTA to DTC

Legislative amendments allowing for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC) became effective in March 2019. The legislative amendments cover the utilisation of income tax losses transferred from Laiki Bank to BOC PCL in March 2013. The introduction of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) IV in January 2014 and its subsequent phasing-in led to a more capital-intensive treatment of this DTA for BOC PCL. With this legislation, institutions are allowed to treat such DTAs as 'not relying on profitability', according to CRR/CRD IV and as a result not deducted from CET1, hence improving a credit institution's capital position.

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

Group financial results on the underlying basis (continued)

Balance Sheet Analysis(continued)

Capital Base (continued)

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

In anticipation of modifications to the Law, the Group has since prior years acknowledged that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The Group estimates that such fees could range up to approximately €5 million per year (for each tax year in scope i.e. since 2018) although the Group understands that such fee may fluctuate annually as to be determined by the Ministry of Finance.

Regulations and Directives

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

In October 2021, the European Commission adopted legislative proposals for further amendments to the Capital Requirements Regulation (CRR), CRD IV and the BRRD (the '**2021 Banking Package**'). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD IV and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state. The European Council's proposal on CRR and CRD was published on 8 November 2022. During February 2023, the European Parliament's ECON Committee voted to adopt Parliament's proposed amendments to the Commission's proposal, and the 2021 Banking Package is currently in the final stage of the EU legislative process. It is expected that the 2021 Banking Package will enter into force on 1 January 2025; and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

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

In February 2023, the Bank received notification from the Single Resolution Board (SRB) of the final decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank, determined as the preferred resolution point of entry. As per the decision, the final MREL requirement was set at 24.35% of risk weighted assets and 5.91% of Leverage Ratio Exposure (LRE) (as defined in the CRR) and must be met by 31 December 2025. Furthermore, the binding interim requirement of 1 January 2022 set at 14.94% of risk weighted assets and 5.91% of LRE must continue to be met. The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) are not eligible to meet its MREL requirements expressed in terms of risk-weighted assets. The Bank must comply with the MREL requirement at the consolidated level, comprising the Bank and its subsidiaries.

The MREL ratio as at 30 June 2023, calculated according to the SRB's eligibility criteria currently in effect and based on internal estimate, stood at 21.5% of risk weighted assets (RWA) and at 10.2% of LRE. The MREL ratio as at 30 June 2023, includes an amount of approximately €8 million that remained following the tender offer and open market purchases of the Existing Capital Securities. The impact of this amount is contributing approximately 8 basis points to the MREL ratio expressed as a percentage of RWA and approximately 3 basis points to the MREL ratio expressed as a percentage of LRE. In July 2023 BOC PCL proceeded with an issue of €350 million senior preferred notes (the 'Notes'). The Notes comply with the MREL criteria and are expected to contribute towards the Bank's MREL requirements. When accounting for the Notes, the Bank's MREL ratio improves to 24.9% of RWA and 11.4% of LRE. For further details, please refer to section 'Debt securities in issue'.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Regulations and Directives (continued)

Bank Recovery and Resolution Directive (BRRD) (continued)

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

The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, which stood at 4.02% on 30 June 2023 (compared to 3.77% as at 31 December 2022), expected to increase further on 30 November 2023 following increase in CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus and to 1% from June 2024 as announced by CBC.

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

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

Funding and Liquidity

Funding

Funding from Central Banks

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

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

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

Deposits

Customer deposits totalled €19,166 million at 30 June 2023, compared to €18,998 million at 31 December 2022. Customer deposits are mainly retail-funded and almost 60% of deposits are protected under the deposit guarantee scheme as at 30 June 2023.

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

The net loans to deposits (L/D) ratio stood at 52% as at 30 June 2023, compared to 52% as at 31 December 2022, remaining broadly flat.

Subordinated liabilities

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

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Funding and Liquidity (continued)

Funding (continued)

Subordinated liabilities (continued)
The T2 Notes were priced at par with a fixed coupon of 6.625% per annum, payable annually in arrears and resettable on 23 October 2026. The maturity date of the T2 Notes is 23 October 2031. The Company will have the option to redeem the T2 Notes early on any day during the six-month period from 23 April 2026 to 23 October 2026, subject to applicable regulatory approvals.

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

In June 2021, the Bank executed its inaugural MREL transaction issuing €300 million of senior preferred notes (the 'SP Notes'). The SP Notes were priced at par with a fixed coupon of 2.50% per annum, payable annually in arrears and resettable on 24 June 2026. The maturity date of the SP Notes is 24 June 2027 and the Bank may, at its discretion, redeem the SP Notes on 24 June 2026, subject to meeting certain conditions as specified in the Terms and Conditions, including applicable regulatory consents. The SP Notes comply with the criteria for MREL and contribute towards the Bank's MREL requirements.

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

Liquidity

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

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

Loans

Group **gross loans** totalled €10,277 million at 30 June 2023, compared to €10,217 million at 31 December 2022, remaining largely flat as ongoing repayments offset new lending.

New lending granted in Cyprus totalled €1,118 million for the six months ended 30 June 2023, compared to €1,159 million for the six months ended 30 June 2022, mainly driven by strong demand for business loans. New lending in the six months ended 30 June 2023 comprised €509 million of corporate loans, €370 million of retail loans (of which €227 million were housing loans), €125 million of SME loans and €114 million of shipping and international loans.

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

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

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Loan portfolio quality

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

The loan credit losses for the six months ended 30 June 2023 totalled €24 million. Further details regarding loan credit losses are provided in section 'Profit before tax and non-recurring items'.

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

Non-performing exposures

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €40 million (net), to €371 million at 30 June 2023, compared to €411 million as at 31 December 2022.

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

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

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

Mortgage-To-Rent Scheme ('MTR')

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

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

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

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

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Fixed income portfolio

Fixed income portfolio amounts to €3,178 million as at 30 June 2023, compared to €2,500 million as at 31 December 2022. As at 30 June 2023, the portfolio represents 13% of total assets (net of TLTRO III) and comprises €2,703 million (85%) measured at amortised cost and €475 million (15%) at fair value through other comprehensive income ('FVOCI').

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

Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** is focused on the disposal of on-boarded properties resulting from debt for asset swaps. Cumulative sales since the beginning of 2019 amount to €0.8 billion and exceed properties on-boarded in the same period of €0.5 billion.

During the six months ended 30 June 2023, the Group completed disposals of €71 million (compared to €87 million in the six months ended 30 June 2022), resulting in a profit on disposal of €5 million for the six months ended 30 June 2023 (compared to a profit of approximately €8 million for the six months ended 30 June 2022). Asset disposals are across all property classes, with almost 45% by value in the six months ended 30 June 2023 relating to land.

During the six months ended 30 June 2023, the Group executed sale-purchase agreements (SPAs) for disposals of 273 properties with contract value of €78 million, compared to SPAs for disposals of 373 properties, with contract value of approximately €99 million for the six months ended 30 June 2022.

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

REMU on-boarded €6 million of assets in the six months ended 30 June 2023 (compared to additions of €26 million in the six months ended 30 June 2022), via the execution of debt for asset swaps and repossessed properties.

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

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €10 million as at 30 June 2023, compared to €10 million as at 31 December 2022, are not managed by REMU.

Group financial results on the underlying basis (continued)

Income Statement Analysis

Total income

Net interest income (NII) for the six months ended 30 June 2023 amounted to €358 million, compared to €145 million for the six months ended 30 June 2022, up by 146% compared to the prior period, driven mainly by the repricing of loans and liquid assets to higher rates, the limited increase in funding costs and the increase of fixed income portfolio, notwithstanding the foregone NII on the NPE sale Helix 3 portfolio (of approximately €8 million in the six months ended 30 June 2022) and the end of TLTRO favourable terms (approximately €7 million in the six months ended 30 June 2022).

Quarterly average interest earning assets (AIEA) for the six months ended 30 June 2023 amounted to €22,781 million, compared to €22,235 million as at 30 June 2022. The increase was driven by the increase in liquid assets, mainly as a result of the increase in fixed income portfolio and deposits by approximately €1.3 billion and €0.7 billion respectively, partly offset by the repayment of €1.0 billion TLTRO funding in December 2022.

Net interest margin (NIM) for the six months ended 30 June 2023 amounted to 3.17% compared to 1.32% for the six months ended 30 June 2022, driven by interest rate rises and the increase in average interest earning assets.

Non-interest income for the six months ended 30 June 2023 amounted to €153 million, compared to €137 million for the six months ended 30 June 2022, comprising net fee and commission income of €90 million, net foreign exchange gains and net gains/(losses) on financial instruments of €21 million, net insurance result of €25 million, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €5 million and other income of €12 million. Each of the components is further analysed below.

Net fee and commission income for the six months ended 30 June 2023 amounted to €90 million, compared to €94 million for the six months ended 30 June 2022. When disregarding the impact of the liquidity fees and NPE sale-related servicing fee, net fee and commission income was up 8% compared to the prior period, reflecting the introduction of a revised price list in February 2022, and higher net credit card commissions.

Net foreign exchange gains and net gains/(losses) on financial instruments amounted to €21 million for the six months ended 30 June 2023, compared to €3 million for the six months ended 30 June 2022. The increase was driven by higher net foreign exchange gains of €16 million (30 June 2022: €12 million) reflecting higher foreign exchange income through FX swaps, and net gains in financial instruments of €5 million (30 June 2022: losses of €9 million).

Net insurance result amounted to €25 million for the six months ended 30 June 2023, compared to €24 million for the six months ended 30 June 2022, up by 4% compared to the prior period.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for the six months ended 30 June 2023 amounted to €5 million (comprising net gains on disposal of stock of properties of €4 million, and net gains from revaluation and disposal of investment properties of €1 million), compared to €7 million for the six months ended 30 June 2022 (comprising a profit on disposal of stock of properties of €8 million and net losses from revaluation and disposal of investment properties of €1 million). REMU profit remains volatile.

Total income amounted to €511 million for the six months ended 30 June 2023, compared to €282 million for the six months ended 30 June 2022. The increase was mainly driven by strong growth in net interest income as explained above.

Total expenses

Total expenses for the six months ended 30 June 2023 were €180 million, compared to €181 million for the six months ended 30 June 2022, 52% of which related to staff costs (€93 million), 38% to other operating expenses (€69 million) and 10% to special levy on deposits and other levies/contributions (€18 million). The decrease mainly relates to the reduction in staff costs, as further explained below.

Group financial results on the underlying basis (continued)

Income Statement Analysis (continued)

Total expenses (continued)

Total operating expenses amounted to €162 million for the six months ended 30 June 2023, compared to €164 million for the six months ended 30 June 2022, as benefits from the efficiency actions in the year ended 31 December 2022 continue to partly offset wage and inflationary pressures.

Staff costs for the six months ended 30 June 2023 were €93 million, compared to €95 million for the six months ended 30 June 2022, reflecting the savings of the Voluntary Staff Exit Plan (VEP) that took place in July 2022, partially offset by inflationary pressures and the accrual of termination benefits cost of approximately €3 million. In addition staff costs for the six months ended 30 June 2023 include €3.8 million staff cost rewards (variable pay), namely the Short-Term Incentive Plan ('STIP') and the Long-Term Incentive Plan. The STIP involves variable remuneration to selected employees and will be driven by both delivery of the Group's strategy, as well as individual performance.

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

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

In July 2022 the Group completed a VEP which led to the reduction of the Group's full-time employees by 16%, at a total cost of €101 million, recorded in the consolidated income statement in the nine months ended 30 September 2022. The gross annual savings were estimated at approximately €37 million or 19% of staff costs with a payback period of 2.7 years. The estimated savings of the VEP are expected to be partially offset by the renewal of the collective agreement in 2023.

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

Other operating expenses totaled €69 million for the six months ended 30 June 2023 and remained broadly flat compared to the six months ended 30 June 2022.

Special levy on deposits and other levies/contributions for the six months ended 30 June 2023 amounted to €18 million compared to €17 million for the six months ended 30 June 2022, up 10% compared to the prior period, driven mainly by the increase of deposits of €0.7 billion compared to the prior period.

The **cost to income ratio excluding special levy on deposits and other levies/contributions** for the six months ended 30 June 2023 was 32% compared to 58% for the six months ended 30 June 2022, down by 26 percentage points. The decrease is driven mainly by the higher total income.

Profit before tax and non-recurring items

Operating profit for the six months ended 30 June 2023 amounted to €331 million, compared to €101 million for the six months ended 30 June 2022, driven mainly by the significant increase in net interest income.

Loan credit losses for the six months ended 30 June 2023 were €24 million, compared to €23 million for the six months ended 30 June 2022.

Cost of risk for the six months ended 30 June 2023 was 48 basis points, compared to a cost of risk of 43 basis points for the six months ended 30 June 2022.

At 30 June 2023, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures (refer to 'Alternative Performance Measures Disclosures' section of the Interim Financial Report 2023 for the respective definitions) totalled €288 million, compared to €282 million at 31 December 2022, and accounted for 2.8% of gross loans (31 December 2022: 2.8%).

Group financial results on the underlying basis (continued)

Income Statement Analysis (continued)

Profit before tax and non-recurring items (continued)

Impairments of other financial and non-financial assets for the six months ended 30 June 2023 amounted to €30 million, compared to €13 million for the six months ended 30 June 2022, driven mainly by higher impairments on specific, large, illiquid REMU stock properties.

Provisions for pending litigations, regulatory and other matters (net of reversals) for the six months ended 30 June 2023 amounted to €14 million, compared to €1 million for the six months ended 30 June 2022. The increase is driven by the revised approach on pending litigation fees and the progress on legal cases, as well as provisions for other matters in relation to the run-down and disposal of the Group's legacy and non-core operations.

Profit before tax and non-recurring items for the six months ended 30 June 2023 totalled €263 million, compared to €64 million for the six months ended 30 June 2022.

Profit after tax (attributable to the owners of the Company)

The **tax charge** totaled to €40 million for the six months ended 30 June 2023, compared to €11 million for the six months ended 30 June 2022.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for the six months ended 30 June 2023 is €222 million, compared to €52 million for the six months ended 30 June 2022.

Advisory and other transformation costs – organic for the six months ended 30 June 2023 are €2 million, compared to €5 million for the six months ended 30 June 2022, down by 57%.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for the six months ended 30 June 2023 amounted to €220 million, compared to €47 million for the six months ended 30 June 2022.

Following completion of Helix 3 project, there are no amounts recognised for **provisions/net profit/(loss) relating to NPE sales** for the six months ended 30 June 2023.

Restructuring and other costs relating to NPE sales for the six months ended 30 June 2023 was nil compared to €1 million for the six months ended 30 June 2022 (relating to the agreements for the sale of portfolios of NPEs).

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) of €3 million in the six months ended 30 June 2022, related to a Voluntary Staff Exit Plan (VEP), through one of the Group's subsidiaries of which a small number of its employees were approved to leave.

Profit after tax attributable to the owners of the Company for the six months ended 30 June 2023 amounts to €220 million, corresponding to a ROTE of 24.0%, compared to €43 million for the six months ended 30 June 2022, corresponding to a ROTE of 4.9%.

Operating Environment

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

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

Operating Environment (continued)

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

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

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

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

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

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

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

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

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

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

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

Operating Environment (continued)

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

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

Sovereign ratings

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

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

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

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

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

Strategy and Outlook

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

The strategic pillars of the Group are:

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

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

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

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

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

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

Strategy and Outlook (continued)

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

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

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

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

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

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

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

Business Overview

Credit ratings

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

Financial performance

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

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

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

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

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

Favourable interest rate environment

The structure of the Group's balance sheet is geared towards higher interest rates. As at 30 June 2023, cash balances with ECB (excluding TLTRO III of approximately €2.0 billion) amounted to approximately €7.1 billion, reflecting immediate benefit from interest rate rises. The repricing of the reference rates gradually benefits the interest income on loans, as over 95% of the Group's loan portfolio is variable rate as at 30 June 2023. The net interest income for the six months ended 30 June 2023 stood at €358 million, more than double compared to the six months ended 30 June 2022. This increase is underpinned by faster and steeper than expected interest rate rises as well as a resilient low deposit pass-through.

Business Overview (continued)

Favourable interest rate environment (continued)
In July 2023, ECB set the remuneration of minimum reserves (MRR) at 0%. The impact on forgone net interest income from the recent reduction of MRR is expected to be approximately €7 million per annum at an annual depo rate of 3.75%.

Growing revenues in a more capital efficient way
The Group remains focused on growing revenues in a more capital efficient way. The Group aims to continue to grow its high-quality new lending, drive growth in niche areas for further market penetration and diversify through non-banking services, such as insurance and digital products.

The Group has continued to provide high quality new lending in the six months ended 30 June 2023 via prudent underwriting standards. Growth in new lending in Cyprus has been focused on selected industries in line with the Bank's target risk profile.

During the six months ended 30 June 2023, new lending remained strong at €1,118 million, mainly driven by strong demand for business loans. Gross performing loan book remained broadly flat as ongoing repayments offset new lending. Performing loan book is expected to remain broadly flat in 2023.

Fixed income portfolio amounts to €3,178 million as at 30 June 2023, compared to €2,500 million as at 31 December 2022. The increase reflects incremental new investments in the six months ended 30 June 2023 ahead of expected maturities in the second half of 2023. The portfolio represents 13% of total assets (excluding TLTRO III) and comprises €2,703 million (85%) measured at amortised cost and €475 million (15%) at fair value through other comprehensive income ('FVOCI').

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

Separately, the Group focuses to continue improving revenues through multiple less capital-intensive initiatives, with a focus on fees and commissions, insurance and non-banking opportunities, leveraging on the Group's digital capabilities. During the six months ended 30 June 2023, non-interest income amounted to €148 million (excluding an one-off insurance receivable in other income), remaining an important contributor to the Group's profitability, and contributing to approximately 90% of the Group's total operating expenses. Going forward, non-interest income is expected to continue covering approximately 80% of the Group's total operating expenses.

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

Net fee and commission income is enhanced by transaction fees from the Group's subsidiary, **JCC Payment Systems Ltd** (JCC), a leading player in the card processing business and payment solutions, 75% owned by the Bank. JCC's net fee and commission income contributed 9% of total non-interest income and amounted to €14 million in the six months ended 30 June 2023, up 11% compared to the prior period, backed by strong transaction volume.

The Group's **insurance companies,** EuroLife and GI are respectively leading players in the life and general insurance business in Cyprus, and have been providing a recurring and improving income, further diversifying the Group's income streams. The net insurance result for the six months ended 30 June 2023 contributed 16% of non-interest income and amounted to €25 million, up 4% compared to the prior period; insurance companies remain valuable and sustainable contributors to the Group's profitability. On 1 January 2023, the Group adopted IFRS 17, retrospectively, which impacts the profit recognition for insurance contracts by phasing of profit over their lifetime compared to recognising profit substantially up-front under IFRS 4. The new accounting standard does not change the economics of the insurance business and decreases the volatility of the Group's insurance companies profitability. For further details please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements within the Interim Financial Report 2023.

Business Overview (continued)

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

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

The efficiency actions of the Group in 2022 to maintain operating expenses under control in an inflationary environment included further branch footprint optimisation and substantial streamline of workforce. In July 2022, the Group successfully completed a Voluntary Staff Exit Plan (VEP) through which 16% of the Group's full-time employees were approved to leave at a total cost of €101 million. Following the completion of the VEP, the gross annual savings were estimated at approximately €37 million or 19% of staff costs with a payback period of 2.7 years. Additionally in January 2022 one of the Bank's subsidiaries completed a small-scale targeted VEP, through which a small number of full-time employees were approved to leave at a total cost of €3 million. In relation to branch restructuring, during 2022 the Group reduced the number of branches by 20 to 60, a reduction of 25%. As a result, the Group's total operating expenses for the six months ended 30 June 2023 were reduced by 2% on prior year, reflecting the benefits from the efficiency actions in an inflationary environment. The cost to income ratio excluding special levy on deposits and other levies/contributions for the six months ended 30 June 2023 was reduced further to 32%, 26 percentage points down compared to the six months ended 30 June 2022, driven mainly by the higher total income. In the second half of 2023, some upward pressure on total operating expenses is expected reflecting the increased cost of living adjustment (COLA) in staff costs and the launch of a reward programme through 'Antamivi Reward scheme' to the Group's performing borrowers, with an expected impact of approximately €4 million in other operating expenses.

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

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

In addition, staff costs for the six months ended 30 June 2023 include approximately €3.5 million staff cost rewards, in relation to the Short-term Incentive Plan. The Short-term Incentive Plan involves variable remuneration to selected employees and will be driven by both, delivery of the Group's strategy as well as individual performance.

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

Business Overview (continued)

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

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

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

Digital offerings via digital channels continued to enhance Group's sales further in the second quarter of 2023. During the second quarter of 2023, new lending via Quickloans reached €26 million (compared to new lending of €18 million for the first quarter of 2023) and totalled €44 million for the six months ended 30 June 2023. Digital deposits have also shown an increase of 33% compared to the prior year period, reaching €221 million at 30 June 2023. For the six months ended 30 June 2023, digital insurance sales, with two new products in mobile app (Motor & Home Insurance), amounted to €159 thousand (31 December 2022: €68 thousand).

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

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

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

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

Business Overview (continued)

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

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

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

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

- Become carbon neutral by 2030
- Become Net Zero by 2050
- Steadily increase Green Asset Ratio
- Steadily increase Green Mortgage Ratio
- ≥30% women in Group's management bodies (defined as the Executive Committee (EXCO) and the Extended EXCO) by 2030

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

Environmental Pillar
The Group has estimated the Scope 1 and Scope 2 greenhouse gas ('GHG') emissions of 2021 relating to own operations in order to set the baseline for carbon neutrality target. The Bank being the main contributor of GHG emissions of the Group, designed in 2022 the strategy to meet the carbon neutrality target by 2030 and progress towards Net Zero target of 2050. For the Group to become carbon neutral by 2030, Scope 1 and Scope 2 emissions should be reduced by 42% by 2030. The Bank plans to invest in energy efficient installations and actions as well as replace fuel intensive machineries and vehicles from 2023 to 2025, which would lead to approximately 5-10% reduction in Scope 1 and Scope 2 emissions by 2025 compared to 2021. The Bank expects that the Scope 2 emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The Bank achieved a reduction of 5% in Scope 1 - Mobile Combustion GHG emissions and 16% in Scope 2 – Purchased electricity GHG emissions in the six months ended 30 June 2023, compared to the six months ended 30 June 2022 due to new solar panels connected to energy network in 2022 and early 2023 as well as buildings abandonment as part of the digitalization journey. The Bank achieved an increase by 50% in renewable energy production, from 79,424 Kwh to 119,499 Kwh in the six months ended 30 June 2023 compared to the six months ended 30 June 2022 respectively.

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

Business Overview (continued)

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

Environmental Pillar (continued)

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

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

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

Social Pillar

At the centre of the Group's leading social role lie its investments in the Bank of Cyprus Oncology Centre (with an overall investment of approximately €70 million since 1998, whilst 60% of diagnosed cancer cases in Cyprus are being treated at the Centre), the work of SupportCY Network, which was developed in 2020, the contribution of the Bank of Cyprus Cultural Centre in promoting the cultural heritage of the island, and the Work of IDEA Innovation Centre. The Cultural Centre undertook a number of innovative projects such as 'AISTHISEIS' - Multi sensory museum experience for people with disabilities as well as the ReInHerit program facilitating innovation and research cooperation between European museums and heritage continuing also into 2023, with 16,542 people participating in events at the Cultural Foundation between January to June 2023. The IDEA Innovation Centre, invested approximately €4 million in start-up business creation since its incorporation, supported creation of 89 new companies to date, and provided support to 210+ entrepreneurs through its Startup program since incorporation. Staff have continued to engage in voluntary initiatives to support charities, foundations, people in need and initiatives to protect the environment.

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

Governance Pillar

The Group continues to operate successfully within a complex regulatory framework of a holding company which is registered in Ireland, listed on two Stock Exchanges and run in compliance with a number of rules and regulations. Its governance and management structures enable it to achieve present and future economic prosperity, environmental integrity and social equity across its value chain. The Group operates within a framework of prudent and effective controls, which enable risk assessment and risk management based on the relevant policies under the leadership of the Board of Directors. The Group has set up a robust Governance Structure to oversee its ESG agenda. Progress on the implementation and evolution of the Group's ESG strategy is monitored by the Sustainability Committee and the Board of Directors. The Sustainability Committee is a dedicated executive committee set up in early 2021 to oversee the ESG agenda of the Group, review the evolution of the Group's ESG strategy, monitor the development and implementation of the Group's ESG objectives and the embedding of ESG priorities in the Group's business targets. The Group's ESG Governance structure continues to evolve, so as to better address the Group's evolving ESG needs. The Group's regulatory compliance continues to be an undisputed priority.

Business Overview (continued)

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

Governance Pillar (continued)

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

Ukrainian crisis

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

Direct impact

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

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

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

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

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

Indirect impact

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

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

Business Overview (continued)

Ukrainian crisis (continued)

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

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

Going concern

The Directors have made an assessment of the ability of the Group, the Company and BOC PCL to continue as a going concern for a period of 12 months from the date of approval of these Consolidated Financial Statements.

The Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group, the Company and BOC PCL to continue to operate as a going concern for a period of 12 months from the date of approval of the Consolidated Condensed Interim Financial Statements.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, cash flows, capital requirements and capital resources, taking also into consideration, the Group's Financial Plan approved by the Board in February 2023 (the 'Plan') and the operating environment, as well as any reforecast exercises performed. The Group has sensitised its projection to cater for a downside scenario and has used reasonable economic inputs to develop its medium-term strategy. The Group is working towards materialising its Strategy.

Capital
The Directors and Management have considered the Group's forecasted capital position, including the potential impact of a deterioration in economic conditions. The Group has developed capital projections under a base and an adverse scenario and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and liquidity
The Directors and Management have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. The Group continues to hold a significant liquidity buffer at 30 June 2023 that can be easily and readily monetised in a period of stress.

Principal risks and uncertainties - Risk management and mitigation

As part of its business activities, the Group faces a variety of risks. The Group monitors, manages and mitigates these risks through various control mechanisms. Credit risk, liquidity and funding risk, market risk (arising from adverse movements in foreign currency exchange rates, interest rates, security prices and property prices) and insurance and re-insurance risk, are some of the key significant risks the Group faces. In addition, key risks facing the Group include operational risk which includes also compliance, legal and reputational risk, regulatory risk, information security and cyber risk, digital transformation risk, technology risk, climate risk as well as business model and strategic risk.

Information relating to the principal risks the Group faces and risk management is set out in Notes 30 to 32 of the Consolidated Condensed Interim Financial Statements and in the 'Risk and Capital Management Report', both of which form part of the Interim Financial Report for the six months ended 30 June 2023. In addition, in relation to legal risk arising from litigations, investigations, claims and other matters, further information is disclosed in Note 27 of the Consolidated Condensed Interim Financial Statements.

Additionally, the Group is exposed to the risk of changes in the value of property which is held either for own use or as stock of property or as investment property. Stock of property is predominately acquired in exchange for debt and is intended to be disposed of in line with the Group's strategy. Further information is disclosed in Note 19 to the Consolidated Condensed Interim Financial Statements.

Details of the financial instruments and hedging activities of the Group are set out in Note 16 of the Consolidated Condensed Interim Financial Statements. Further information on financial instruments is also presented in Notes 30-31 of the Consolidated Condensed Interim Financial Statements.

Going concern (continued)

Principal risks and uncertainties - Risk management and mitigation (continued)

The Group activities are mainly in Cyprus therefore the Group's performance is impacted by changes in the Cyprus operating environment, as described in the 'Operating environment' section of the Interim Management Report and changes in the macroeconomic conditions and geopolitical developments as described in the 'Risk and Capital Management Report' which forms part of the Interim Financial Report for the six months ended 30 June 2023.

In addition, details of the significant and other judgements, estimates and assumptions which may have a material impact on the Group's financial performance and position are set out in Note 6 to the Consolidated Condensed Interim Financial Statements.

The invasion of Russia in Ukraine and the sanctions imposed on Russia raised new challenges for the Group and the developments are closely monitored. The Group's direct exposure is limited, however any indirect impact will depend on the duration and severity of the crisis in Ukraine and its impact on the Cypriot economy, mainly due to a negative impact on the tourism sector, the increasing energy prices resulting in inflationary pressures and disruptions to global supply chains. Further disclosures are provided in 'Business Overview' and 'Operating Environment' sections of the Interim Management Report.

The risk factors discussed above and in the reports referenced above should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant, but which may become significant. The challenging conditions in global markets arise due to factors including the Ukraine-Russian war, high interest rate environment, inflationary pressures, the growing threat from cyberattacks and other unknown risks. As a result the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these risks are outside of the Group's control.

Events after the reporting date

In July 2023, BOC PCL issued a €350 million senior preferred note (the 'Notes') under the EMTN Programme. The Notes were priced at par with a fixed coupon of 7.375% per annum, payable annually in arrear, until the Optional Redemption Date (i.e., 25 July 2027). The maturity date of the Notes is 25 July 2028; however, BOC PCL may, at its discretion, redeem the Notes on the Optional Redemption Date subject to meeting certain conditions (including applicable regulatory consents) as specified in the terms and conditions of the Notes. If the Notes are not redeemed by BOC PCL, the coupon payable from the Optional Redemption Date until the Maturity Date will convert from a fixed rate to a floating rate and will be equal to 3 month Euribor plus 409.5 basis points, payable quarterly in arrears. The Notes are listed on the Luxembourg Stock Exchange's Euro MTF market. The Notes comply with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contribute towards BOC PCL's MREL requirements.

No other significant non adjusting events have taken place since 30 June 2023.

Dividends

Based on the 2022 SREP decision, effective from 1 January 2023, any equity dividend distribution is subject to regulatory approval, both for the Company and BOC PCL. The requirement for approval does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 Capital nor to the payment of coupons on any AT1 capital instruments issued by the Company or BOC PCL.

In April 2023, the Company obtained the approval of the European Central Bank to pay a dividend. Following this approval, the Board of Directors of the Company recommended to the shareholders for approval at the Annual General Meeting ('AGM') on 26 May 2023, a final dividend of €0.05 per ordinary share in respect of the earnings of the year ended 31 December 2022 ('Dividend'). The AGM on 26 May 2023 declared a final dividend of €0.05 per share. The Dividend amounted to €22,310 thousand in total and is equivalent to a payout ratio of 14% of the financial year 2022 recurring profitability adjusted for the AT1 coupon or 31% based on the financial year 2022 profit after tax (as reported in the 2022 Annual Financial Report).

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard (IAS) 34 on 'Interim Financial Reporting' as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007, as amended, Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019 and the applicable requirements of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

Each of the Directors, whose names and functions are listed on page 1, confirms that to the best of each person's knowledge and belief:

- the Consolidated Condensed Interim Financial Statements, prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 30 June 2023, and its profit for the period then ended; and
- the Interim Financial Report includes a fair review of:
  a. important events that have occurred during the first six months of the year, and their impact on the Consolidated Condensed Interim Financial Statements;
  b. a description of the principal risks and uncertainties for the next six months of the financial year;
  c. details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2023; and
  d. any changes in the related parties' transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Efstratios-Georgios Arapoglou
Chairman

Panicos Nicolaou
Chief Executive Officer

08 August 2023

Risk and Capital Management Report

30 June 2023

One of the Group's main priorities is to continually improve its risk management framework so as to be able to respond to the ever changing environment in an appropriate manner. Effective risk management is critical to the success of the Group, and as such the Group maintains a risk management framework designed to ensure the safety and soundness of the institution, protect the interests of depositors and shareholders and comply with regulatory requirements. Clearly defined lines of authority and accountability are in place as well as the necessary infrastructure and analytics so as to allow the Group to identify, assess, monitor and control risk.

1. Risk Management Framework (RMF)

The Board of Directors, through the Risk Committee, is responsible to ensure that a coherent and comprehensive Risk Management Framework (the 'framework' or 'RMF') for the identification, assessment, monitoring and controlling of all risks is in place. The framework ensures that material and emerging risks are identified, including, but not limited to, risks that might threaten the Group's business model, future performance, liquidity, and solvency. Such risks are taken into consideration in defining the Group's overall business strategy ensuring alignment with the Group's risk appetite. In setting its risk appetite, the Group ensures that its risk bearing capacity is considered so that the appropriate capital levels are always maintained.

The RMF is supported by a strong governance structure and is comprised by several components that are analysed in the sections below. The RMF is reviewed, updated and approved by the Board at least annually to reflect any changes to the Group's business or to take into consideration external regulations, corporate governance requirements and industry best practices.

1.1 Risk Governance

The responsibility for the governance of risk at the Group lies with the Board of Directors (the 'Board') which is ultimately accountable for the effective management of risks and for the system of internal controls in the Group. The Board is assisted in its risk governance responsibilities by the Board Risk and Board Audit Committees (RC and AC respectively) and at executive level by the Executive Committee (EXCO), Asset and Liability Committee (ALCO), Asset Disposal Committee (ADC), Technology Committee (TC), Sustainability Committee (SC) and the Credit Committees.

The RC supports the Board on risk oversight matters including the monitoring of the Group's risk profile and of all risk management activities whilst the AC supports the Board in relation to the effectiveness of the system of internal controls. In addition, discussion and escalation processes are in place through both Board and Executive Committees that provide for a consistent approach to risk management and decision-making.

Discussion around risk management is supported by the appropriate risk information submitted by the Risk Management Division (RMD) and Executive Management. The Chief Risk Officer (CRO) or his representatives participate in all such key committees to ensure that the information is appropriately presented, and that RMD's position is clearly articulated.

Furthermore, certain roles within the Group are critical as they carry specific responsibilities with respect to risk management. These include:

1. Risk Management Framework (RMF) (continued)

1.1 Risk Governance (continued)

Chief Executive Officer (CEO)
The CEO is accountable for leading the development of the Group's strategy and business plans in a manner that is consistent with the approved risk appetite and for managing and organising Executive Management to ensure these are executed. It is the CEO's responsibility to manage the Group's financial and operational performance within the approved risk appetite.

Chief Risk Officer (CRO)
The CRO leads an independent RMD across the Group including its subsidiaries. The CRO is responsible for the execution of the Risk Management Framework and the development of risk management strategies. The CRO is expected to challenge business strategy and overall risk taking and risk governance within the Group and independently submit his findings, where necessary, to the RC. The CRO reports to the RC and for administrative purposes has a dotted line to the CEO.

Accountability and Authority

The RMD operates independently and this is achieved through:
- Organisational independence from the activities assigned to be controlled
- Unrestricted and direct access to Executive Management and the Board, either through the RC or directly
- Direct and unconditional access to all business lines that have the potential to generate material risk to the Group. Front Line managers are required to cooperate with the RMD managers and provide access to all records and files of the Group as well as any other information necessary
- A separate budget submitted to the RC for approval
- The CRO is a member of the EXCO and holds voting or veto presence in key executive committees as well as operational committees

Furthermore, this independence is also ensured as:
- The CRO is assessed annually by the RC that is jointly responsible with Human Resources & Remuneration Committee
- The CRO maintains a close working relationship with both the RC and its Chairperson which includes regular and frequent communication both during official RC meetings as well as unofficial meetings and discussions

1.2 Organisational Model

The RMD is the business function set up to manage the risk management process of the Group on a day-to-day basis. The risk management process is integrated into BOC PCL's internal control system. The RMD is organized into several departments, each of which is specialized in one or several categories of risks. The organization of RMD reflects the types of risks inherent in the Group.

The RMD organisational model is structured so as to:
- Define risk appetite and report regularly on the status of the risk profile
- Ensure that all material and emerging risks have proper ownership, management, monitoring and clear reporting
- Promote proper empowerment in key risk areas that will assist in the creation of a robust risk culture
- Provide tools and methodologies for risk management to the business units
- Report losses from risks identified to the EXCO, the RC and the Board and, where necessary, to the Regulatory Authorities
- Collect and monitor Key Risk Indicators (KRIs)

RMD is responsible for the risk management across the Group companies.

1. Risk Management Framework (continued)

1.3 Risk Identification

The risk identification process is comprised of two simultaneous but complementary approaches, namely, the top-down and the bottom-up approaches. The top-down process is led by Senior Management and focuses on identifying the Group's material risks whilst the bottom-up approach risks are identified and captured through several methods such as the Risk and Control Self-Assessment (RCSA) process, incident capture, fraud events capture, regulatory audits, direct engagement with specialized units and other. The risks captured by these processes are compiled during the annual ICAAP process and its quarterly updates and form the Groups' material risks.

To ensure a complete and comprehensive identification of risks the Group has integrated several key processes into its risk identification process,including the:

- Internal Capital Adequacy Assessment Process (ICAAP)
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Stress testing
- Group Financial Plan compilation process
- Regulatory, internal and external reviews and audits

1.4 Three Lines of Defence

The Group complies with the regulatory guidelines for corporate governance and has established the "Three Lines of Defence" model as a framework for effective risk and compliance management and control. The three lines of defence model defines the responsibilities in the risk management process ensuring adequate segregation in the oversight and assurance of risk.

First Line of Defence

The first line of defence lies with the functions that own and manage risks as part of their responsibility for achieving objectives and are responsible for implementing corrective actions to address, process and control deficiencies. It comprises of management and staff of business lines and support functions who are directly aligned with the delivery of products and/or services.

Second Line of Defence

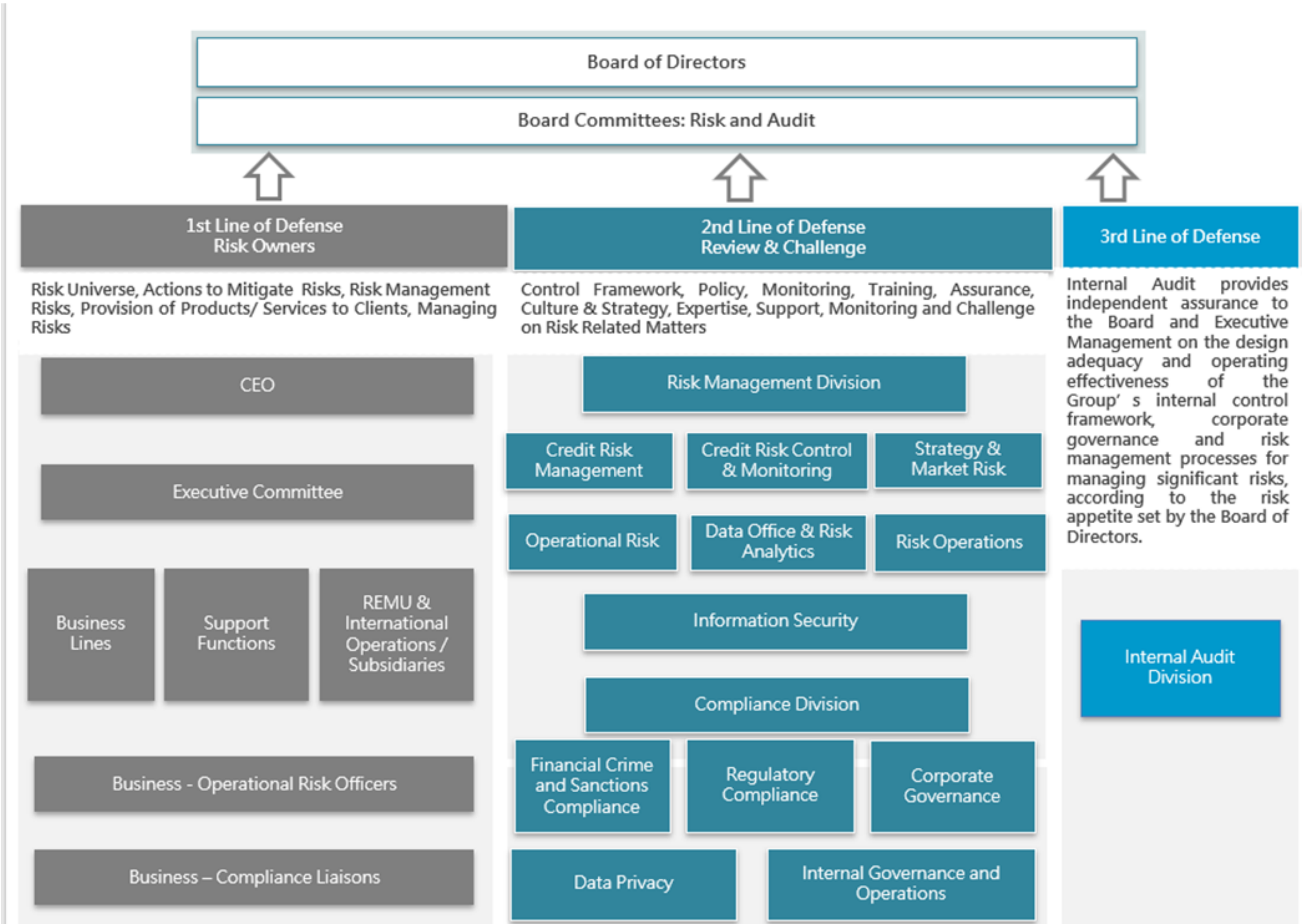
The second line of defence includes functions that oversee the compliance of the first line management and staff, with the regulatory framework and risk management principles. It comprises of the RMD, Information Security and Compliance functions. The second line of defence sets the corporate governance framework of the Group and establishes policies and guidelines that the business lines and support functions, Group entities and staff should operate within. The second line of defence also provides support, as well as independent oversight of the risk profile and risk framework.

Third Line of Defence

The third line of defence is the Internal Audit Division (IA) which provides independent assurance to the Board and the EXCO on the design adequacy and operating effectiveness of the Group's internal control framework, corporate governance and risk management processes for the management of risks according to the risk appetite set by the Board. Findings are communicated to the Board through the committees and senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates.

1. Risk Management Framework (continued)

1.4 Three Lines of Defence (continued)



1. Risk Management Framework (continued)

1.5 Risk Appetite Framework (RAF)

The objective of the Risk Appetite Framework (RAF) is to set 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 comprises the Risk Appetite Statement (RAS), the associated policies and limits where appropriate, as well as the roles and responsibilities for the implementation and monitoring of the RAF.

The RAF has been developed in order to be used as a key management tool to better align business strategy (financial and non-financial targets) with risk management, and it should be perceived as the focal point for all relevant stakeholders within the Group, as well as the supervisory bodies, for the assessment of whether the undertaken business activities are consistent with the set risk appetite.

The RAF is one of the main elements of the Risk Management Framework which includes, among others, a number of frameworks, policies and circulars that address the principal risks of the Group. Separate RAFs are in place for all operating subsidiaries which are subject to each subsidiary's board approval.

Risk Appetite Statement (RAS)

The RAS is the articulation, in written form, of the aggregate level and types of risk that the Group is willing to accept in the course of executing its business objectives and strategy. It includes qualitative statements as well as quantitative measures expressed relative to capital, liquidity, earnings, funding and other risks.

The RAS considers both principal and other risks (financial and non-financial), which indicatively include the following:

Financial Risks	Non-Financial Risks
Capital	Transaction Processing & Execution Risk
Earnings	Compliance Risk
Credit Risk	Reputational Risk
Market Risk	Legal Risk
Interest Rate Risk in the Banking Book (IRRBB)	Information Security and Cyber Risk
Concentration Risk	Technology Risk
Funding & Liquidity Risk	Outsourcing/3rd Party Risk
Climate & Environmental (C&E) risks	

Risk appetite and Financial Plan interaction

The RAS is subject to an annual review process during the period in which the Group's Financial Plan as well as the divisional strategic plans are being devised. The interplay between these processes provides for an iterative cycle of feedback during which RAS indicators, with minimum regulatory requirements, act as a backstop to the Financial Plan while for other indicators the Financial Plan provides input for risk tolerance setting. Furthermore, every revision of the Group Financial Plan (as well as different scenarios run under the Group Financial Plan) and/or Reforecast exercises run, are tested to ensure they are within the Group's risk appetite.

Risk Appetite Dashboard monitoring

To ensure that the risk profile of the Group is within the approved risk appetite, a consolidated risk report and a risk appetite dashboard are regularly reviewed and discussed by the Board and the RC.

Where a breach occurs, the Risk Appetite Framework provides the necessary escalation process to analyse the materiality and nature of the breach, notify the appropriate authorities, and decide the necessary remediation actions.

1. Risk Management Framework (continued)

1.6 Risk Taxonomy

In order to ensure that all risks the Group may face are identified and managed, a risk taxonomy is in place which is a key component of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). The taxonomy ensures that the coverage of risks is comprehensive and identifies potential linkages between risks.

1.7 Risk measurement and reporting

The RMD uses several systems and models to support key business processes and operations, including stress testing, credit approvals, fraud risk and financial reporting. The RMD has established a model governance and validation framework to help address risks arising from model use.

Additionally, the RMD:

- Maintains a categorization and definitions of risks and terminologies which are used throughout the Group
- Collates reports of Key Risk Indicators (KRIs) and other relevant risk information. When limit violations occur, escalation and reporting procedures are in place
- Checks that risk information provided by management is complete and accurate and management has made all reasonable endeavour to identify and assess all key risks
- Ensures that the risk information submitted to the RC and the Board by RMD and management is appropriate and enables monitoring and control of all the risks faced by the Group
- Discloses risk information externally and prepares reports on significant risks in line with internal and external regulatory requirements.

Stress testing

Stress testing is a key risk management tool used by the Group to provide insights on the behaviour of different elements of the Group in a crisis scenario and assess Group's resilience and capital and liquidity adequacy, through the use of a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Group
- Evaluating whether there is sufficient capital or adequate liquidity under stressed conditions (ICAAP and ILAAP) so as to put in place the appropriate mitigants
- Evaluating of the Group's strategy
- Establishing or revising limits
- Assisting the Group to understand the events that might push the Group outside its risk appetite

The Group carries out the stress testing process through a combination of bottom-up and top-down approaches. Scenario and sensitivity analysis follows a bottom-up approach, whereas reverse stress testing follows through a top-down approach.

If the stress testing scenarios reveal vulnerability to a given set of risks, management makes recommendations to the Board, through RC, for remedial measures or actions.

The Group's stress testing programme embraces a range of forward looking stress tests and takes all the Group's material risks into account. These key internal exercises include:

- ICAAP stress testing undertaken in support of the Internal Capital Adequacy Assessment Process. Quarterly ICAAP reviews are also undertaken.
- ILAAP stress testing applied to the funding and liquidity plan in support of the Internal Liquidity Adequacy Assessment Process to formally assess the Group's liquidity risks. Quarterly ILAAP reviews are also undertaken.
- Ad hoc stress testing as and if required, including in response to regulatory requests.

1. Risk Management Framework (continued)

1.7 Risk measurement and reporting (continued)

Other business and risk type specific stress tests

The Market Risk and Liquidity Risk Department performs additional stress tests, which include the following:

- Monthly stress testing for interest rate risk (2% shock on Economic Value (EV))
- Quarterly stress testing for interest rate risk (2% shock on Net Interest Income (NII))
- Quarterly stress testing for interest rate risk (based on the six predefined Basel interest rate scenarios which involve flattening, steepening, short up, short down, parallel up, parallel down shocks)
- Quarterly stress testing on items that are marked to market: impact on profit/loss and reserves is indicated from changes in interest rates and prices of bonds and equities

ICAAP

The ICAAP is a process whose main objective is to assess the Group's capital adequacy in relation to the level of underlying material risks that may arise from pursuing the Group's strategy or from changes in its operating environment. More specifically, the ICAAP analyses, assesses and quantifies the Group's risks, establishes the current and future capital needs for the material risks identified and assesses the Group's absorption capacity under both the baseline scenario and stress testing conditions, aiming to demonstrate that the Group has sufficient capital, under both the base and stress case scenarios, to support its business and achieve its strategic objectives as per its Board-approved Risk Appetite and Strategy.

The Group undertakes quarterly reviews of its ICAAP results as well as on an ad-hoc basis if needed, which are submitted to the ALCO and the RC, considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile is reviewed and any material changes/developments since the annual ICAAP exercise are assessed in terms of capital adequacy.

The 2022 ICAAP was submitted to the ECB on 31 March 2023. The 2022 ICAAP indicated that the Group has sufficient capital and available mitigants to support its risk profile and its business and to enable it to meet its regulatory requirements, both under a baseline and stressed conditions scenarios.

ILAAP

The ILAAP is a process whose main objective is to assess whether the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both the base and severe stress scenarios, and to meet regulatory requirements including the LCR and the NSFR.

The Group undertakes quarterly reviews of its ILAAP results through quarterly liquidity stress tests which are submitted to the ALCO and the RC, where actual and forecasted information is considered. Any material changes since the year-end are assessed in terms of liquidity and funding. The quarterly review assessment identifies whether the Group has an adequate liquidity buffer to cover the stress outflows.

The 2022 ILAAP was submitted to the ECB on 31 March 2023. The 2022 ILAAP indicated that the Group maintains liquidity resources which are adequate to ensure its ability to meet obligations as they fall due under ordinary and stressed conditions scenarios.

The Group participated in the ECB's inaugural climate risk stress test in 2022

The exercise served as a learning exercise for banks to introduce climate risk into risk management as a qualitative part of the Supervisory Review and Evaluation Process (SREP).

1.8. 2023 ECB SREP Stress Test

The Group participated in the ECB SREP Stress Test of 2023. The stress test measures how banks would fare in a hypothetical adverse economic scenario, which assumes a prolonged period of low growth, elevated interest rates and high inflation. It is not a ‘pass-or-fail’ exercise, and no threshold is set to define the failure or success of banks. Instead, the findings of the stress test will feed into the ongoing supervisory dialogue, in which supervisors explain their assessment to banks and discuss potential measures to address any shortcomings.

The ECB published on 28 July 2023 the results of the stress test. As per the relevant ECB press release ‘Capital depletion at the end of the three-year horizon was lower than in previous stress tests. This was mainly due to banks overall being in better shape going into the exercise, with higher-quality assets and stronger profitability.

1.8. 2023 ECB SREP Stress Test (continued)

By its standard procedures, the ECB considers the quantitative performance in the adverse scenario as an input when reconsidering the level of the Pillar II Guidance in its 2023 SREP assessment and the qualitative performance as one aspect when holistically reviewing the Pillar II Requirement. The stress test was based on a Static balance sheet approach, thus using the Group's financial and capital position as at 31 December 2022 as a starting point. The results for the Group, as published by the ECB, are presented below:

		High-level individual results by range			**Scenario sensitivities: 2023-2025 projections**		
		adverse scenario, FL			**(delta over total REA FL 2022)**		
Institution	Sample	Maximum CET1 ratio (FL) depletion by ranges	Minimum CET1 ratio (FL) by ranges	Minimum Tier 1 leverage ratio (FL) by ranges	Delta projected NII adverse vs. baseline scenario (in %)	Delta projected LLPs adverse vs. baseline scenario (in %)	Delta projected profit/ loss adverse vs. base-line scenario (in %)
Bank of Cyprus Holdings Public Limited Company	SSM	300 to 599 bps	8%≤CET1R < 11%	5%≤LR < 6%	-3.7%	4.4%	-9.0%

In terms of the Group's results, the capital depletion of the CET1 FL ratio over the 3-year horizon in the adverse scenario is in the range of 300 to 599 basis points as indicated above, compared to 600 to 899 basis points in the 2021 stress test, and compares well with the average 480 basis points for the 98 ECB stress-tested banks.

2. Recovery and resolution planning

The Group's recovery plan sets out the arrangements and measures that the Group could adopt in the event of severe financial stress to restore the Group to long term viability. A suite of indicators and options are included in the Group's recovery plan, which together present the identification of stress events and the tangible mitigating actions available to the Group to restore viability. The Group's recovery plan is approved by the Board on the recommendation of the RC and ALCO.

The Group resolution plan is prepared by the Single Resolution Board in cooperation with the National Resolution Authority (Central Bank of Cyprus). The resolution plan describes the Preferred Resolution Strategy (PRS), in addition to ensuring the continuity of the Group's critical functions and the identification and addressing of any impediments to the Group's resolvability. The PRS for the Group is a single point of entry bail-in via BOC PCL. The resolution authorities also determine the Minimum Requirements for own funds and Eligible Liabilities (MREL) corresponding to the loss absorbing capacity necessary to execute the resolution.

3. Risk Culture

A robust risk culture is a substantial determinant of whether the Group will be able to successfully execute its strategy within its defined risk appetite. An action plan towards the implementation of a firm-wide risk culture is in place across the Group and RMD has a leading role in it. The action plan includes, among other, the measurement of risk culture, both at bank wide and divisional level, through a specific Risk Culture Dashboard, the communication of a series of topics aiming at re-enforcing risk culture and the provision of specific training for areas such as credit underwriting and other risk management related topics.

The Group enhances its risk control culture and increases the awareness of its employees on risk issues through ongoing staff training (both through physical workshops and through e-learning).

4. Principal Risks

As part of its business activities, the Group faces a variety of risks, the most significant of which include Credit risk, Market risk, Liquidity and Funding risk, and Operational risk. Additionally, further risks are also faced by the Group. The principal and other risks faced by the Group are described below as well as the way these are identified, assessed, managed and monitored by the Group, including the available mitigants. The risks described below, should not be regarded as a complete and comprehensive statement of all potential risks, uncertainties or mitigants as other factors either not yet identified or not currently material, may also adversely affect the Group.

4.1 Credit Risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Group (actual, contingent or potential claims both on and off balance sheet) or failure to perform as agreed. Within the general definition of credit risk, the Group identifies and manages the following types of risk:

- Counterparty credit risk (CCR): the Group's credit exposure with other counterparties.
- Settlement risk: the risk that a counterparty fails to deliver the terms of a contract with the Group.
- Issuer risk: the risk to earnings arising from a credit deterioration of an issuer of instruments in which the Group has invested.
- Concentration risk: the risk that arises from the uneven distribution of exposures (i.e.credit concentration) to individual borrowers or by industry, collateral, product, currency, economic sector or geographical region.
- Country risk: the Group's credit exposure arising from lending and/or investment or the presence of the Group to a specific country.

4. Principal Risks (continued)

4.1 Credit Risk (continued)

Further information and analysis relating to credit risk is set out in Note 30 of the Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023 (the Consolidated Financial Statements) included within the Interim Financial Report for 2023. Furthermore, the Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment/expected credit losses (ECLs) are set out in Note 6 'Significant and other judgements, estimates and assumptions' of the Consolidated Financial Statements.

In order to manage these risks the Group has a Credit Risk Management function within RMD that:

- Develops policies, guidelines and approval limits necessary to manage and control or mitigate the credit and concentration risk in the Group. These documents are reviewed and updated at least annually, or earlier if deemed necessary, to reflect any changes in the Group's risk appetite and strategy and consider the market environment or any other major changes from external or internal factors that come into effect
- Assesses credit applications before their submission for approval to Credit Committees / the RC / the Board from an independent credit risk perspective and prepares recommendations with suggestions to improve credit proposals and mitigate credit risk
- Participates in the Credit Committees of BOC PCL
- Sets KRIs for monitoring the loan portfolio quality and adopts a proactive monitoring approach for such risks
- Measures the expected credit losses in a prudent way in order to have a fair representation of the loan book in the financial statements of the Group

The Group sets and monitors Risk Appetite limits around credit risk. Furthermore, a Limits framework is in place in relation to the credit granting process and its structure and also the general rules are documented in the Group's Lending Policy. Relevant circulars and guidelines are in place that provide limits and parameters for the approval of credit applications and related credit limits. The Group currently has Credit Committees which are comprised of members from various Group divisions outside RMD to ensure independence of opinion. Applications falling outside the approval limits of these Credit Committees are submitted to the RC or the Board, depending on the total exposure of the customer group.

The Group has adopted methodologies and techniques for credit risk identification. These methodologies are revised and modified whenever deemed necessary to reflect changes in the financial environment and adjusted to be in line with the Group's overall strategy and its short-term and long-term objectives.

The Group dedicates considerable resources to assess credit risk and to correctly reflect the value of its on-balance and off-balance sheet exposures in accordance with regulatory and accounting guidelines. This process can be summarised in the following stages:

- Analysing performance and asset quality
- Measuring exposures and concentrations
- Raising allowances for impairment

Furthermore, post-approval monitoring is in place to ensure adherence to both, terms and conditions set in the approval process and Credit Risk policies and procedures. A key aspect of credit risk is credit risk concentration which is defined as the risk that arises from the uneven distribution of exposures to individual borrowers, specific industry or economic sectors, geographical regions, product types or currencies. The monitoring and control of concentration risk is achieved by limit setting (e.g. sector and name limits) and reporting them to senior management.

4. Principal Risks (continued)

4.1 Credit Risk (continued)

Approved policies and procedures are in place for the approval of Credit and Settlement Limits per counterparty based on the business needs, current exposures and investment plans. Counterparty credit and settlement limits for Treasury transactions are monitored real-time through the Treasury front to back system. In the case of a breach, an automatic e-mail is sent to the dealers and Market & Liquidity Risk officers.

With the aim of identifying credit risk at an early stage, a number of key reports are prepared for the EXCO and / or the Board. Indicatively, these include a credit quality dashboard which analyses, among others, the overall loan book performance, forborne facilities, the performance of new lending, specific products or portfolios, new forbearances and modifications and other portfolio quality KPIs.

Country Risk

Country Risk refers to the possibility that borrowers of a particular country may be unable or unwilling to fulfill their foreign obligations for reasons beyond the usual risks which arise in relation to all lenders. Country risk affects the Group via its operation in other countries and also via investments in other countries (Money Market (MM) placements, bonds, shares, derivatives, etc.). In addition, the Group is indirectly affected by credit facilities provided to customers for their international operations or due to collateral in other countries. In this respect, country risk is considered in the risk assessment of all exposures, both on-balance sheet and off-balance sheet. Country risk exposures are the aggregation of the various on-balance sheet and off-balance sheet exposures including investments in bonds, money market placements, loans by or guarantees to residents of a country, letters of credit, properties etc.

The Group monitors country risk on a quarterly basis by reporting to ALCO country exposures compared to country limits. The Board, through the RC is also informed on a regular basis and at least annually, on any limit breaches. The country limits are allocated based on the CET1 capital of the Group, the country's credit rating and internal scoring.

Credit Risk Mitigation

The fundamental lending principle of the Group is to approve applications and provide credit facilities only when the applicant has the ability to pay and where the terms of these facilities are consistent with the customers' income and financial position, independent of any collateral that may be assigned as security and in full compliance with all external laws, regulations, guidelines, internal codes of conduct and other internal policies and procedures. The value of collateral is not a decisive factor in the Group's assessment and approval of any credit facility since collaterals may only serve as a secondary source of repayment in case of default.

Collaterals are used for risk mitigation. Collaterals are considered as an alternative means of debt recovery in case of default. Collateral by itself is not a predominant criterion for approving a loan, with the exception of when the loan agreement envisages that the repayment of the loan is based on the sale of the property pledged as collateral or liquid collateral provided.

Credit risk mitigation is also implemented through a number of policies, procedures, guidelines circulars and limits. Policies are approved by the RC and include the:

- Lending Policy
- Write-off policy
- Concentration Risk Policy
- Valuation Policy
- Credit Risk Monitoring Policy

4. **Principal Risks** (continued)

4.1 **Credit Risk** (continued)

Systems

The effective management of the Group's credit risk is achieved through a combination of training and specialisation as well as appropriate credit risk assessment (risk rating) systems. The Group aims to continuously upgrade the systems and models used in assessing the creditworthiness of Group customers. Additionally the Group continuously upgrades the systems and models for the assessment of credit risk aiming to correctly reflect the value of its on-balance and off-balance sheet exposures in accordance with regulatory and accounting guidelines.

The analysis of loans and advances to customers in accordance with the EBA standards is presented below.

4. Principal Risks (continued)

4.1 Credit Risk (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

30 June 2023	Gross loans and advances to customers				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
	Group gross customer loans and advances[1,2]	Of which: NPEs	Of which exposures with forbearance measures		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which: NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which: NPEs			Total exposures with forbearance measures	Of which: NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	**42,617**	-	-	-	**34**	-	-	-
Other financial corporations	**240,481**	2,526	23,323	2,182	**5,736**	1,958	2,011	1,890
Non-financial corporations	**5,131,534**	131,992	473,886	84,842	**101,605**	71,610	55,060	49,547
Of which: Small and Medium sized Enterprises[3] (SMEs)	***3,265,501***	*72,343*	*217,817*	*25,610*	***50,836***	*30,680*	*12,894*	*9,054*
Of which: Commercial real estate[3]	***3,895,018***	*109,623*	*436,537*	*76,672*	***79,255***	*60,639*	*50,963*	*46,452*
Non-financial corporations by sector								
Construction	**526,409**	8,380			**10,285**			
Wholesale and retail trade	**901,834**	18,565			**16,851**			
Accommodation and food service activities	**1,207,745**	20,699			**10,881**			
Real estate activities	**1,073,133**	16,507			**17,030**			
Manufacturing	**379,347**	7,316			**4,966**			
Other sectors	**1,043,066**	60,525			**41,592**			
Households	**4,791,088**	234,687	233,781	119,784	**90,526**	64,478	40,943	32,950
Of which: Residential mortgage loans[3]	***3,776,027***	*193,706*	*205,936*	*104,043*	***58,323***	*44,227*	*33,356*	*26,487*
Of which: Credit for consumption[3]	***571,712***	*33,935*	*26,402*	*17,407*	***23,584***	*14,604*	*7,138*	*6,242*
Total on-balance sheet	**10,205,720**	**369,205**	**730,990**	**206,808**	**197,901**	**138,046**	**98,014**	**84,387**

[1] Excluding loans and advances to central banks and credit institutions.
[2] The residual fair value adjustment on initial recognition (which relates mainly to loans acquired from Laiki Bank and is calculated as the difference between the outstanding contractual amount and the fair value of loans acquired and bears a negative balance) is considered as part of the gross loans, therefore decreases the gross balance of loans and advances to customers.
[3] The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across all categories as certain customers could be in both categories.

4. Principal Risks (continued)

4.1 Credit Risk (continued)

31 December 2022	Gross loans and advances to customers				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
	Group gross customer loans and advances[4,5]	Of which: NPEs	Of which exposures with forbearance measures: Total exposures with forbearance measures	Of which exposures with forbearance measures: Of which: NPEs	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which: NPEs	Of which exposures with forbearance measures: Total exposures with forbearance measures	Of which exposures with forbearance measures: Of which: NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	**39,766**	-	-	-	**25**	-	-	-
Other financial corporations	**186,281**	3,202	11,665	2,825	**6,008**	2,332	2,453	2,250
Non-financial corporations	**5,134,784**	144,522	950,499	91,100	**100,265**	69,212	53,940	44,957
Of which: Small and Medium sized Enterprises[6] (SMEs)	***3,492,414***	*84,493*	*449,891*	*33,140*	***53,939***	*33,882*	*17,643*	*11,683*
Of which: Commercial real estate[6]	***3,975,290***	*120,445*	*895,971*	*80,980*	***76,385***	*58,414*	*47,047*	*41,152*
Non-financial corporations by sector								
Construction	**549,921**	11,949			**13,319**			
Wholesale and retail trade	**909,438**	20,783			**15,907**			
Accommodation and food service activities	**1,164,979**	20,824			**9,543**			
Real estate activities	**1,108,581**	20,281			**19,738**			
Manufacturing	**392,843**	9,429			**4,033**			
Other sectors	**1,009,022**	61,256			**37,725**			
Households	**4,770,863**	260,629	290,556	143,140	**72,144**	54,643	37,362	32,087
Of which: Residential mortgage loans[6]	***3,785,834***	*220,354*	*253,794*	*125,994*	***45,805***	*37,616*	*29,759*	*25,751*
Of which: Credit for consumption[6]	***547,490***	*37,622*	*42,719*	*21,235*	***20,355***	*14,628*	*8,543*	*7,486*
Total on-balance sheet	**10,131,694**	**408,353**	**1,252,720**	**237,065**	**178,442**	**126,187**	**93,755**	**79,294**

[4] Excluding loans and advances to central banks and credit institutions.
[5] The residual fair value adjustment on initial recognition (which relates mainly to loans acquired from Laiki Bank and is calculated as the difference between the outstanding contractual amount and the fair value of loans acquired and bears a negative balance) is considered as part of the gross loans, therefore decreases the gross balance of loans and advances to customers.
[6] The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across all categories as certain customers could be in both categories.

4. Principal Risks (continued)

4.2 Market Risk

Market Risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in interest rates, currency / foreign exchange rates and from any other changes in market prices. The main types of market risk to which the Group is exposed to are listed below:

a. Interest Rate Risk (IRR);
b. Currency / foreign exchange risk;
c. Securities price risk (bonds, equities);
d. Properties risk;

Each of the risks above is defined and further analysed in the subsections below. Furthermore, additional information relating to Market risk is set out in Note 31 of the Consolidated Financial Statements.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates. The four components of interest rate risk are: repricing risk, yield curve risk, basis risk and option risk. Repricing risk is the risk of loss of net interest income or economic value as a result of timing mismatch in the repricing of assets, liabilities and off balance sheet items. Yield curve risk arises from changes in the slope and the shape of the yield curve. Basis risk is the risk of loss of net interest income or economic value as a result of imperfect correlation between two different variable reference rates. Option risk arises from options, including embedded options, e.g. consumers redeeming fixed rate products when market rates change.

The Group does not operate any trading book and thus all interest rate exposure arises from the banking book.

In order to manage interest rate risk, the Group sets a one year limit on the maximum reduction of the net interest income. Limits are set as a percentage of Group capital and as a percentage of Group net interest income (when positive). There are different limits for Euro and USD. Whilst limit breaches must be avoided at all times, any such occurrence is reported to the relevant authorities (ALCO and / or RC) and mitigating actions are put in place. Monthly monitoring is provided to the Group ALCO.

Group Treasury is responsible for managing the interest rate exposure of the Group. Corrective actions are taken by Treasury with a view of minimizing the risk exposure and in any event to restrict exposure within limits (unless an ALCO/RC approval is obtained).

Currency/foreign exchange risk

Currency/foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In order to limit the risk of loss from adverse fluctuations in foreign exchange rates, overall Intraday and Overnight open currency position limits have been set. These internal limits are small compared to the maximum permissible by the CBC. Internal limits serve as a trigger to management for avoiding regulatory limit breaches. Due to the fact that there is no Foreign Exchange Trading Book, VaR (Value at Risk) is calculated on a monthly basis on the position reported to the CBC. Intraday and overnight FX position limits are monitored daily and the open foreign currency position or any breaches are reported to ALCO and to the RC on a monthly basis.

4. Principal Risks (continued)

4.2 Market Risk (continued)

Currency/foreign exchange risk (continued)

Group Treasury is responsible for managing the foreign currency open position of the Group emanating from its balance sheet. The foreign currency position emanating from customer transactions is managed by the Treasury Sales Unit of Global Markets & Treasury Sales Department. Treasury is also responsible for the hedging for the foreign currency open positions of the foreign non-banking units of the Group.

Equities Price Risk

The risk of loss from changes in the price of equity securities arises when there is an unfavorable change in the prices of equity securities held by the Group as investments.

The Group has an outstanding equity and fund portfolio in its books. The equity portfolio mainly relates to certain legacy positions acquired through loan restructuring activity and specifically through debt for equity swaps, whereas the fund portfolio mainly relates to the insurance operations of the Group. The policy is to manage the current equity portfolio with the intention to run it down by selling all positions for which there is a market. No new purchases of equities are allowed without ALCO approval. Nevertheless, new equities may be obtained from repossessions of collateral for loans. Analysis of equity and fund holdings are reported to ALCO on a quarterly basis. The RC is also updated on a quarterly basis. Analysis of the positions the Group maintains as at 30 June 2023 is presented in Note 15 of the Consolidated Financial Statements.

Debt Securities Price Risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers changes and/or as the interest rates of fixed rate securities change.

The Group invests a significant part of its liquid assets in debt securities. Changes in the prices of debt securities classified as investments at FVPL, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as FVOCI affect directly the equity of the Group. Debt securities classified as HTC are held at amortised cost.

Debt security investment limits exist at RAS level governing the level of riskiness of the overall portfolio. Credit limits per issuer are also in place. Market and Liquidity Risk Department is responsible for setting and calibrating bond related limits. Limit monitoring is performed on a daily basis. Any breaches are reported following the escalation process depending on the limit breach.

The debt security portfolio is management by Group Treasury and governed by the Bond Investment Policy. The annual bond investment strategy is proposed by Treasury and approved by ALCO. Treasury proceeds with bond investment amounts approved through the Financial Plan, within the Bond Investment Policy and within limits and parameters set in the various policies and frameworks. Analysis of the positions the Group maintains as at 30 June 2023 is presented in Note 15 of the Consolidated Financial Statements.

Property Price Risk

Property price risk is the risk that the value of property will decrease, either as a result of:

- Changes in the demand for, and prices of, Cypriot real estate; or
- Regulatory requests which may increase the capital requirements for stock of property

The Group is exposed to the risk of changes in the fair value of property which is held either for own use or as stock of property or as investment property. Stock of property is predominately acquired in exchange of debt and is intended to be disposed off in line with the Group’s strategy.

4. **Principal Risks** (continued)

4.2 **Market Risk** (continued)

Property Price Risk (continued)

The Group has in place a number of actions to manage and monitor the exposure to property risk as indicated below:

- It has an established Real Estate Management Unit (REMU), a specialised division to manage the repossessed portfolio including employing appropriate disposal strategies.
- It has placed great emphasis on the efficient and quick disposal of on-boarded properties and in their close monitoring and regular reporting. RAS indicators and other KPIs are in place monitoring REMU properties in terms of value and sales levels.
- It assesses and quantifies property risk as one of the material risks for ICAAP purposes under both the normative and economic perspective.
- It monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.
- As part of the valuation process, assumptions are made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts.
- For the valuation of properties owned by the Group judgement is exercised which takes into account all available reference points, such as expert valuation reports, current market conditions and application of appropriate illiquidity haircuts where relevant.

4.3 **Liquidity and Funding Risk**

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its commitments as they fall due. This risk includes the possibility that the Group may have to raise funding at high cost or sell assets at a discount to fully and promptly satisfy its obligations.

Funding risk is the risk that the Group does not have sufficiently stable sources of funding or access to sources of funding may not always be available at a reasonable cost and thus the Group may fail to meet its obligations, including regulatory ones (e.g. MREL).

Further information relating to Group risk management in relation to liquidity and funding risk is set out in Note 32 of the Consolidated Financial Statements. Additionally, information on encumbrance and liquidity reserves is provided below.

4.3.1 **Encumbered and unencumbered assets**

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations.

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €3,661,160 thousand as at 30 June 2023 (31 December 2022: €3,631,269 thousand).

An asset is classified as unencumbered if it has not been pledged as collateral against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can potentially be pledged and those that are not readily available to be pledged. As at 30 June 2023, the Group held €19,630,696 thousand (31 December 2022: €19,468,233 thousand) of unencumbered assets that can potentially be pledged and can be used to support potential liquidity funding needs and €846,459 thousand (31 December 2022: €659,311 thousand) of unencumbered assets that are not readily available to be pledged for funding requirements in their current form.

4. Principal Risks (continued)

4.3 Liquidity and Funding Risk (continued)

4.3.1 Encumbered and unencumbered assets (continued)

The table below presents an analysis of the Group's encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes. The carrying amount of such assets is disclosed below:

	Encumbered	Unencumbered		
30 June 2023	**Pledged as collateral**	**Which can potentially be pledged**	**Which are not readily available to be pledged**	**Total**
	€000	**€000**	**€000**	**€000**
Cash and other liquid assets	69,345	8,932,649	557,247	9,559,241
Investments	257,147	3,056,286	16,274	3,329,707
Loans and advances to customers	3,334,668	6,442,025	231,126	10,007,819
Property	-	1,199,736	41,812	1,241,548
Total on-balance sheet	**3,661,160**	**19,630,696**	**846,459**	**24,138,315**
31 December 2022				
Cash and other liquid assets	73,557	9,391,365	307,147	9,772,069
Investments	284,343	2,393,796	25,564	2,703,703
Loans and advances to customers	3,273,369	6,397,745	282,138	9,953,252
Property	-	1,285,327	44,462	1,329,789
Total on-balance sheet	**3,631,269**	**19,468,233**	**659,311**	**23,758,813**

Encumbered assets primarily consist of loans and advances to customers and investments in debt securities. These are mainly pledged for the funding facilities of the European Central Bank (ECB) and for the covered bond (Notes 21 and 32 of the Consolidated Financial Statements for the six months ended 30 June 2023 respectively). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and (ii) trade finance transactions and guarantees issued. It may also be used as part of the supplementary assets for the covered bond.

BOC PCL maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the Central Bank of Cyprus (CBC). Under the Covered Bond Programme, BOC PCL has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. The covered bonds have a maturity date on 12 December 2026 and interest rate of 3-months Euribor plus 1.25% payable on a quarterly basis. On 9 August 2022, BOC PCL proceeded with an amendment to the terms and conditions of the covered bonds following the implementation of Directive (EU) 2019/2162 in Cyprus. The covered bonds are listed on the Luxemburg Bourse and have a conditional Pass-Through structure. All the bonds are held by BOC PCL. The covered bonds are eligible collateral for the Eurosystem credit operations and are placed as collateral for accessing funding from the ECB.

Unencumbered assets which can potentially be pledged include debt securities and Cyprus loans and advances which are less than 90 days past due. Balances with central banks are reported as unencumbered and can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as unencumbered not readily available to be pledged.

4. Principal Risks (continued)

4.3 Liquidity and Funding Risk (continued)

4.3.1 Encumbered and unencumbered assets (continued)

Unencumbered assets that are not readily available to be pledged primarily consist of loans and advances which are prohibited by contract or law to be encumbered or which are more than 90 days past due or for which there are pending litigations or other legal actions against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred to the Company or a subsidiary are not considered to be readily available as collateral. Non-current assets held for sale are also reported as not readily available to be pledged.

Insurance assets held by Group insurance subsidiaries are not included in the table above or below as they are primarily due to the insurance policyholders.

The carrying and fair value of the encumbered and unencumbered investments of the Group as at 30 June 2023 and 31 December 2022 are as follows:

30 June 2023	Carrying value of encumbered investments	Fair value of encumbered investments	Carrying value of unencumbered investments	Fair value of unencumbered investments
	€000	€000	€000	€000
Equity securities	-	-	148,216	148,216
Debt securities	257,147	239,317	2,924,344	2,858,123
Total investments	**257,147**	**239,317**	**3,072,560**	**3,006,339**
31 December 2022				
Equity securities	-	-	194,841	194,841
Debt securities	284,343	265,696	2,224,519	2,150,383
Total investments	**284,343**	**265,696**	**2,419,360**	**2,345,224**

4.3.2 Liquidity regulation

The Group has to comply with provisions on the Liquidity Coverage Ratio (LCR) under CRD IV/CRR (as supplemented by Delegated Regulations (EU) 2015/61), with the limit set at 100%. The Group has to also comply with the Net Stable Funding Ratio (NSFR) calculated as per the Capital Requirements Regulation II (CRR II), with the limit set at 100%.

The LCR is designed to promote the short-term resilience of a Group's liquidity risk profile by ensuring that it has sufficient high-quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

As at 30 June 2023, the Group was in compliance with all regulatory liquidity requirements. As at 30 June 2023, the Group's LCR stood at 316% (compared to 291% at 31 December 2022) and the Group's NSFR stood at 165% (compared to 168% at 31 December 2022).

4. Principal Risks (continued)

4.3 Liquidity and Funding Risk (continued)

4.3.3 Liquidity reserves

The below table sets out the Group's liquidity reserves:

Composition of the liquidity reserves	30 June 2023			31 December 2022		
	Internal Liquidity Reserves	Liquidity reserves as per LCR Delegated Regulation (EU) 2015/61 LCR eligible		Internal Liquidity Reserves	Liquidity reserves as per LCR Delegated Regulation (EU) 2015/61 LCR eligible	
		Level 1	Level 2A & 2B		Level 1	Level 2A & 2B
	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	**8,943,425**	**8,943,425**		9,379,888	9,379,888	-
Placements with banks	**263,698**			55,825	-	-
Liquid investments	**2,476,326**	**2,021,659**	**331,111**	1,827,698	1,344,032	214,800
Available ECB Buffer	**57,509**			147,844	-	-
Total	**11,740,958**	**10,965,084**	**331,111**	11,411,255	10,723,920	214,800

Internal Liquidity Reserves present the total liquid assets as defined in BOC PCL's Liquidity Policy. Liquidity reserves as per LCR Delegated Regulation (EU) 2015/61 present the liquid assets as per the definition of the aforementioned regulation i.e. High-Quality Liquid Assets (HQLA).

Balances in Nostro accounts and placements with banks are not included in Liquidity reserves as per LCR, as they are not considered HQLA (they are part of the LCR Inflows).

Liquid investments under the Liquidity reserves as per LCR are shown at market values reduced by standard weights as prescribed by the LCR regulation. Liquid investments under Internal Liquidity Reserves include additional unencumbered liquid bonds and are shown at market values net of haircuts based on ECB methodology and haircuts.

Current available ECB buffer is not part of the Liquidity reserves as per LCR.

In March 2022, the ECB announced the steps for the gradual phasing out of the temporary pandemic collateral easing measures implemented during COVID-19 breakout. The gradual phasing out is scheduled to be concluded in three steps having started from July 2022 and will be completed by March 2024 and gives banks time to adapt to the adjustments to the collateral framework. In the first step in July 2022, the ECB halved the temporary reduction in collateral valuation haircuts across all assets from the previous 20% adjustment to 10%. In the second step, in June 2023, the ECB expects to implement a new valuation haircut schedule based on its pre-pandemic risk tolerance level for credit operations, phasing out the temporary reduction in collateral valuation haircuts completely. In the third and final step, in March 2024, the ECB will, in principle, phase out the remaining pandemic collateral easing measures.

4. Principal Risks (continued)

4.4 Operational Risk

Operational risk is defined as the risk of direct or indirect impact/loss resulting from inadequate or failed internal processes, people, and systems or from external events. The Group includes in this definition compliance, legal and reputational risk.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Group also maintains adequate insurance policies to cover for unexpected material operational losses.

Operational Risk Management (ORM) Framework

The Group has established an Operational Risk Management Framework which addresses the following objectives:

- Raising operational risk awareness and building the appropriate risk culture,
- Providing effective risk monitoring and reporting to the Group's management at all levels in relation to the operational risk profile, so as to facilitate decision making for risk control activities,
- Mitigating operational risk to ensure that operational losses do not cause material damage to the Group's franchise and that the impact on the Group's profitability and corporate objectives is contained, and
- Maintaining a strong system of internal controls to ensure that operational incidents do not cause material damage to the Group's franchise and have a minimal impact on the Group's profitability and reputation.

Operational risks can arise from all business lines and from all activities carried out by the Group and are thus diverse in nature.

To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation.

The key components of the Operational Risk Management Framework include the following:

Risk Appetite

A defined Operational RAS is in place, which forms part of the Group RAS. Thresholds are applied for conduct and other operational risk related losses.

Risk Control Self-Assessment (RCSA)

A RCSA methodology is established across the Group. According to the RCSA methodology, business owners are requested to identify risks that arise primarily from the risk areas under a full Risk Taxonomy. Updating/enriching the risk register in terms of existing and potential new risks identified and their mitigation is an on-going process, sourced from RCSAs, but also from other risk and control assessments (RCAs) performed.

4. Principal Risks (continued)

4.4 Operational Risk (continued)

Operational Risk Management (ORM) Framework (continued)

Incident recording and analysis

An operational risk event is defined as any incident where through the failure or lack of a control, the Group could actually or potentially have incurred a loss including circumstances whereby the Group could have incurred a loss, but in fact made a gain, as well as, incidents resulting in potential reputational or regulatory impact.

Operational risk loss events are classified and recorded in the Group's Risk and Compliance Management System (RCMS), which serves as an enterprise tool integrating all risk-control data (e.g. risks, loss incidents, KRIs) to provide a holistic view with regards to risk identification, corrective action and statistical analysis. During the six months ended 30 June 2023, 406 loss events with gross loss equal to or greater than €1,000 each were recorded including incidents of prior years (mostly legal cases) for which losses materialised in the first six months of 2023.

Key Risk Indicators (KPIs)

These are operational or financial variables, which track the likelihood and/or impact of a particular operational risk. KRIs serve as a metric, which may be used to monitor the level of particular operational risks.

Operational Risk Capital Requirements and ICAAP

Regulatory and economic capital requirements for operational risk are calculated using the Standardised Approach. Additional Pillar II Regulatory capital is calculated for operational risk on a scenario-based approach. Scenarios are built after taking into consideration the Key Risk Drivers, which are identified using a combination of methods and sources, through top-down and bottom-up approaches.

Training and awareness

The Group strives to continuously enhance its risk control culture and increase the awareness of its employees on operational risk issues through ongoing staff training (both through physical workshops and through e-learning).

Reporting

Important operational risks identified and assessed through the various tools/methodologies of the Operational Risk Management Framework, are regularly reported to top management, as part of overall risk reporting. More specifically, the CRO reports on risk to the EXCO and the RC on a monthly basis, while annual risk reports are submitted to the Regulators. Ad-hoc reports are also submitted to management, as needed.

4.4.1 Fraud Risk Management

Ongoing activities/initiatives towards further enhancements of Operational Risk Management (ORM), involved inter alia the following: (i) provision of a fraud risk awareness seminar to staff and top-management, (ii) establishment of the specialised Fraud Risk Assessment Framework, going beyond the current Risk Control Self-Assessment (RCSA) process, and (iii) ongoing reviews and enhancements of the internal ORM policies and procedures as well as the ORM database. As a result of the customers' accelerated shift towards digital channels, the Fraud Risk Management unit further strengthened the Group's current external fraud prevention controls and framework.

4. **Principal Risks** (continued)

4.4 **Operational Risk** (continued)

4.4.2 Third-Party Risk Management

Third-Party and Outsourcing risk can arise from a third party's failure to perform as expected due to reasons such as inadequate capacity, technological failure, human error, unsatisfactory quality of service, unsatisfactory continuity of service and/or financial failure.

The Group has a dedicated unit under the ORM Function, the Third-Party Risk Management unit, which is responsible to perform risk assessments on all outsourcing, strategic and intragroup arrangements of the Group. As part of the risk assessment, the team identifies and monitors the effective handling of any potential gaps/weaknesses. The risk assessment occurs prior to signing an outsourcing, strategic or intragroup arrangement as well as prior to their renewal or annually.

5. Other principal risks and uncertainties

In addition to the most significant risks described in section 4 above, further risks are also faced by the Group. These risks are described below as well as the way these are identified, assessed, managed and monitored by the Group, including the available mitigants.

Emerging risks are defined as new risks or existing risks that may escalate in a different way, with the potential to threaten the execution of the Group’s strategy or operations over a medium-term horizon. The main emerging risks currently considered by the Group are also stated below.

The risks described below, should not be regarded as a complete and comprehensive statement of all potential risks, uncertainties or mitigants, as other factors either not yet identified or not currently material, may also adversely affect the Group.

5.1 Business Model and Strategic Risk

Business model and strategic risk arises from changes in the external environment including economic trends and competition. The Group faces competition from domestic banks, international banks and financial technology companies operating in Cyprus and in other parts of Europe and insurance companies offering savings, insurance and investment products. Also, a continuing deterioration of the macroeconomic environment stemming from the impact of high inflation and the resultant interest hikes or other factors could lead to adverse financial performance which could deplete capital resources.

Furthermore, the Group's business and performance are materially dependent on the economic conditions in, and future economic prospects of, Cyprus where the Group's operations and earnings are predominantly based and generated. The Group is also dependent on the economic conditions and prospects in the countries of the main counterparties it conducts business with.

The Group has a clear strategy with key objectives to enable delivery and operates within defined risk appetite limits which are calibrated to be within the Group’s Risk bearing capacity. The strategy is monitored closely on a regular basis. Furthermore, the Group remains ready to explore opportunities that complement its strategy including diversification of income. As the Group’s business model is pivotal to strategic risk, it has to be viable and sustainable and produce results that are consistent with its annual targets.

5. Other principal risks and uncertainties (continued)

5.1 Business Model and Strategic Risk (continued)

The Group manages business model risk within its Risk Appetite Framework, by setting limits in respect of measures such as financial performance, portfolio performance and concentration and capital levels. At a more operational level, the risk is mitigated through periodic monitoring of variances to the Financial Plan. During the year, periodic forecast updates for the full year financial outcome are produced. The frequency of forecast updates during each year will be determined based on prevailing business and economic conditions. Performance against plan is monitored at a Group and business line level on a monthly basis and reported to the EXCO and the Board.

The Group also closely monitors the risks and impact of changing macroeconomic conditions on its lending portfolio, strategy and objectives and takes mitigating actions were necessary. An internal stress testing framework (ICAAP) is in place to provide insights and to assess capital resilience to shocks.

5.2 Geopolitical Risk

Cyprus is a small, open, services-based economy, with a large external sector and high reliance on tourism and international business services. As a result, external factors which are beyond the control of the Group, including developments in the European Union and in the global economy, or in specific countries with which Cyprus maintains close economic and investment links can have a significant impact on domestic economic activity. A number of macro and market related risks, including weaker economic activity, the higher interest rate environment and higher competition in the financial services industry, could negatively affect the Group's business environment, results and operations.

In the continuing war in Ukraine the preannounced Ukrainian counter offensive has started and is expected to lead to an escalation of the fighting, but it is unlikely to result in any significant recapture of territory or alter the strategic balance on the ground. The war is seen to be settling to a stalemate and holding the threat of renewed supply disruptions and heightened shortages. Ukraine's bid to join NATO is unlikely to receive material support from other member states and as the counter offensive is shown to have limited potential, voices for a ceasefire and peace negotiations will increase.

In Cyprus, financial sector exposure to foreign markets has been reduced since the 2013 banking crisis. Although, there have been distinct improvements in Cyprus' risk profile after the banking crisis, substantial risks remain. Cyprus' overall country risk is a combination of sovereign, currency, banking, political and economic structure risk, influenced by external developments with substantial potential impact on the domestic economy. Given the above, the Group recognises that unforeseen political events can have negative effects on the Group's activities, operating results, and market position.

Economic growth will continue to slow in the third and subsequent quarters, but there will not be a recession this year at least.

Interest rates in the US and the eurozone will peak in the third quarter as headline inflation continues to decline while core inflation proves stickier. Amidst a high interest rate environment, financial stability risks will remain elevated.

The BRICS summit in August will likely make progress on the incorporation of additional members and the establishment of a bloc-backed reserve currency. Both of which seek to reduce the dominance of the dollar and Western institutions in the long run. The August summit could be the most consequential for the bloc in years as China, Russia and others aim to boost membership and coordination on key issues. While the summit itself may not result in the immediate entry of new members or an agreement on a reserve currency, there will probably be precursor deals that could accelerate those two important long-term trends.

5. Other principal risks and uncertainties (continued)

5.2 Geopolitical Risk (continued)

The Group is continuously monitoring the current affairs and the impact of the forecasted macroeconomic conditions on the Group's strategy to proactively manage emerging risks. Where necessary, bespoke solutions are offered to the affected exposures and close monitoring on those is maintained. Furthermore, the Group includes related events in its stress testing scenarios in order to gain a better understanding of the potential impact.

5.3 Legal Risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings and regulatory investigations against the Group (Note 27 of the Consolidated Financial Statements for the six months ended 30 June 2023). In the event that legal issues are not properly dealt with by the Group, this may result in financial and/or reputational loss to the Group.

The Group has procedures in place to ensure effective and prompt management of Legal risk including, among others, the risk arising from regulatory developments, new products and internal policies.

The Legal Services department (LSD) monitors the pending litigation against the Group and assesses the probability of loss for each legal action against the Group based on International Accounting Standards. It also estimates the amount of potential loss where it is deemed as probable. Additionally, it reports pending litigation and latest developments to the EXCO and the Board.

5.4 Technology Risk

Technology risk arises from system downtimes impacting customer service which may be due to inadequate, failed, or unavailable systems, use of outdated, obsolete and unsupported systems, or systems which do not fully support the requirements of business.

The Group has in place a Technology strategy designed to support Business strategy and customer centric view. The strategy includes investments in skills and technology to minimize system downtimes and security risks, modernization of legacy applications, a risk-based approach to leverage the benefits of Cloud technologies, and investments in new and innovative applications to support business requirements. The Group implements a collaborative operating model to implement the technology initiatives that support Business strategy and Digital Transformation. The Operating Model involves setting up cross-functional teams that combine Technical, Business and Risk skills for accelerated results. Where necessary, the Group engages with appropriate external experts to augment capacity and meet peak demand for technical initiatives while always maintaining good levels of internal skills and capacity.

The Group's policies, standards, governance and controls undergo ongoing review to ensure continued alignment with the Group's Technology strategy, compliance with regulation and effective management of the associated risks.

5.5 Digital Transformation Risk

Digital transformation risk arises as banking models are rapidly evolving both locally and globally and available technologies have resulted in the customers' accelerated shift towards digital channels. Money transmission, data driven integrated services and Digital Product Sales are rapidly evolving. How the Group adapts to these emerging developments could impact the realisation of its market strategies and financial plans.

In the context of the overall business strategy, the Group assesses and develops its Digital Strategy and maintains a clear roadmap that provides for migration of transactions to the Digital Channels, full Digital and Digital Assisted Product Sales, and Self-service banking support services. The Group's emphasis on the Digital Strategy is reflected in the Operating Model with a designated Chief Digital Officer supported by staff with the appropriate skills that work closely with Technology and Control functions to execute the strategy.

5. Other principal risks and uncertainties (continued)

5.5 Digital Transformation Risk (continued)

The Group's policies, standards, governance and controls undergo ongoing review to ensure continued alignment with the Group's strategy for digital transformation and effective management of the associated risk.

5.6 Information security and cyber risk

Information security and cyber-risk is a significant inherent risk, which could cause a material disruption to the operations of the Group. The Group's information systems have been and will continue to be exposed to an increasing threat of continually evolving cybercrime and data security attacks. Customers and other third parties to which the Group is significantly exposed, including the Group's service providers (such as data processing companies to which the Group has outsourced certain services), face similar threats.

Current geopolitical tensions have also led to increased risk of cyber-attack from foreign state actors.

The Group has an internal specialized Information Security team which constantly monitors current and future cyber security threats (either internal or external, malicious or accidental) and invests in enhanced cyber security measures and controls to protect, prevent, and appropriately respond against such threats to Group systems and information.

The Group also collaborates with industry bodies, the National Computer Security Incident Response Team (CSIRT) and intelligence-sharing working groups to be better equipped with the growing threat from cyber criminals. In addition, the Group maintains insurance coverage which covers certain aspects of cyber risks, and it is subject to exclusion of certain terms and conditions.

5.7 Regulatory Compliance Risk

The Group conducts its business subject to on-going regulation and the associated regulatory risk, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations. Regulatory compliance risk is the risk of impairment to the organization's business model, reputation and financial condition from failure to meet laws and regulations, internal standards and policies, and expectations of key stakeholders such as shareholders, customers, employees and society. Failure to comply with regulatory framework requirements or identify and plan for emerging requirements could lead to, amongst other things, increased costs for the Group, limitation on BOC PCL's capacity to lend and could have a material adverse effect on the business, financial condition and results, operations and prospects of the Group.

There is strong commitment by the management of the Group for an on-going and transparent dialogue with the Regulators (jointly supervised by the ECB and the CBC and others, such as CySec and CSE). The Regulatory Steering Group, chaired by the CEO and consisting of executive management, monitors the regulatory agenda, through the Regulatory Affairs Department, to ensure that all regulatory matters are brought to the attention of management in a timely manner.

Regulatory compliance risks are identified and assessed using a combination of methods and sources as these are incorporated in the Group Compliance Policy which sets out the compliance framework that applies within BOC PCL and its subsidiaries in Cyprus and abroad. It sets out the business and legal environment applicable to the Group as well as the objectives, principles, and responsibilities for compliance and how these responsibilities are allocated and carried out at Group and Entity level. Furthermore, this Policy ensures that there are proper procedures in place for BOC PCL to comply with the requirements of the CBC Internal Governance Directive and the EBA Guidelines on Internal Governance.

The Compliance Risk Assessment Methodology sets out the principles to assess compliance risks. The Compliance function identifies and communicates new and/or amended regulations, within the regulatory compliance universe to the relevant business areas for impact assessment and/or a regulatory gap analysis with the Compliance function as second line of defence to review and challenge.

5. Other Principal Risks and uncertainties (continued)

5.7 Regulatory Compliance Risk (continued)

Appropriate tools and mechanisms are in place for monitoring, escalating and reporting compliance activities which, inter alia, include:

- The assessment of periodic reports submitted by the network of its compliance liaisons,
- The use of aggregated risk measurements such as risk indicators,
- The use of reports warranting management attention, documenting material deviations between actual occurrences and expectations (an exceptions report) or situations requiring resolution (an issues log),
- Targeted trade surveillance, observation of procedures, desk reviews and/or interviewing relevant staff,
- Conducting periodic onsite/offsite reviews with applicable laws, rules, regulations and standards and providing recommendations / advise to management on measures to be taken to ensure compliance,
- Investigating possible breaches of the compliance policy and regulatory framework and/or conducting investigations thereof, as requested by competent authorities with the assistance, if deemed necessary, of experts from within the institution such as experts from the Internal Audit function, Legal Services Department, Information Security Department or Fraud Risk Management unit.
- Investigating and reporting to competent authorities' incidents of non-compliance with the CBC Directive within one month of identification and mitigating actions to prevent a recurrence of similar incidents within two months of identification of the incident.

Regulatory compliance risks are reported promptly to senior management and the management body in accordance with the guidelines of the CBC Directive.

5.8 Insurance risk and re-insurance risk

The Group, through its subsidiaries EuroLife Ltd ('EuroLife') and General Insurance of Cyprus Ltd ('GIC'), provides life insurance and non-life insurance services, respectively, and is exposed to certain risks specific to these businesses. Insurance events are unpredictable and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial and statistical techniques. Insurance risk therefore is the risk that an insured event under an insurance contract occurs and uncertainty over the amount and the timing of the resulting claim exists.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance coverage, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations assumed under such reinsurance arrangements.

For that reason, the creditworthiness of reinsurers is evaluated by considering their solvency and credit rating and reinsurance arrangements are monitored and reviewed to ensure their adequacy as per the reinsurance policy. In addition, counterparty risk assessment is performed on a frequent basis.

Both EuroLife and GIC perform their annual stress tests (ORSA) which aim to ensure, among others, the appropriate identification and measurement of risks, an appropriate level of internal capital in relation to each company's risk profile, and the application and further development of suitable risk management and internal control systems.

5. Other Principal Risks and uncertainties (continued)

5.9 Climate Risk

Climate risk is a growing consideration for financial institutions given the increasing effects of climate change globally and the sharp regulatory focus on addressing the resultant risks. The Group' s businesses, operations and assets could be affected by climate-related and environmental (C&E) risks over the short, medium and long term. The Group is committed to integrate C&E risk considerations into all relevant aspects of the decision-making, governance, strategy and risk management and has taken the necessary steps to achieve this.

The Group applies the definition used in the Task Force on Climate-related Financial Disclosures (TCFD) for C&E risks whereby climate-related risks are divided into two major categories: (1) risks related to the transition to a lower-carbon economy (transition risks) and (2) risks related to the physical impacts of climate change (physical risks).

- **Physical risk** refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. Physical risk is categorised as "acute" when it arises from extreme events, such as droughts, floods and storms, and "chronic" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity. This can directly result in, for example, damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption of supply chains.

- **Transition risk** refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered, for example, by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences.

Accelerating climate change could lead to sooner than anticipated physical risk impacts to the Group and the wider economy and there is uncertainty in the scale and timing of technology, commercial and regulatory changes associated with the transition to a low carbon economy.

The Group has put in place targets which set transparent ambitions on its climate strategy and decarbonization of its operations and portfolio aiming to achieve the transition to a net zero economy by 2050. An overall ESG strategy and working plan is thus in place to facilitate these ambitions and address ECB expectations.

A dedicated ESG team, RMD as well as other resources have been mobilised across the Group and are engaged in various streams of work such as the measuring of the own and financed emissions, the integration of C&E risk in the risk management framework and the enhancement of green products offering.

Further information on C&E risks and its risk management is provided in the ESG Disclosures 2022 that form part of the Group's Annual Financial Report for 2022, within part A 'Task Force on Climate-related Financial Disclosures (TCFD)'.

6. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain healthy capital adequacy ratios to cover the risks of its business and support its strategy and maximise shareholders' value.

The capital adequacy framework, as in force, was incorporated through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) which came into effect on 1 January 2014 with certain specified provisions implemented gradually. The CRR and CRD transposed the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage for credit institutions. It is directly applicable in all EU member states. CRD governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, member states were required to transpose the CRD into national law and national regulators were allowed to impose additional capital buffer requirements.

On 27 June 2019, the revised rules on capital and liquidity (Regulation (EU) 2019/876 (CRR II) and Directive (EU) 2019/878 (CRD V)) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities (MREL)), but most changes became effective as of June 2021. The key changes introduced consist of, among others, changes to qualifying criteria for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement (as defined in the CRR) and a Net Stable Funding Ratio (NSFR).

The amendments that came into effect on 28 June 2021 are in addition to those introduced in June 2020 through Regulation (EU) 2020/873, which among others, brought forward certain CRR II changes in light of the COVID-19 pandemic. The main adjustments of Regulation (EU) 2020/873 that had an impact on the Group's capital ratio relate to the acceleration of the implementation of the new SME discount factor (lower RWAs), extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1 allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets and phasing in this starting from 2022 (phasing in at 25% in 2022 and 50% in 2023) and advancing the application of prudential treatment of software assets as amended by CRR II (which came into force in December 2020). In addition, Regulation (EU) 2020/873 introduced a temporary treatment of unrealized gains and losses on exposures to central governments, to regional governments or to local authorities measured at fair value through other comprehensive income which the Group elected to apply and implemented from the third quarter of 2020. This temporary treatment was in effect until 31 December 2022.

In October 2021, the European Commission adopted legislative proposals for further amendments to the CRR, CRD and the BRRD (the '2021 Banking Package'). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package includes:

- a proposal for a Regulation (sometimes known as 'CRR III') to make amendments to CRR with regard to (amongst other things) requirements on credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor;
- a proposal for a Directive (sometimes known as 'CRD VI') to make amendments to CRD with regard to (amongst other things) requirements on supervisory powers, sanctions, third-country branches and ESG risks; and
- a proposal for a Regulation to make amendments to CRR and the BRRD with regard to (amongst other things) requirements on the prudential treatment of G-SII groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the MREL requirements.

The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state.

6. **Capital management** (continued)

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

The CET1 ratio of the Group as at 30 June 2023 stands at 16.0% and the Total Capital ratio at 21.1% on a transitional basis. The ratios as at 30 June 2023 include reviewed profits for the six months ended 30 June 2023 and an accrual for an estimated final dividend at a payout ratio of 30% of the Group Adjusted Profit after tax for the period, which represents the low-end range of the Group’s approved dividend policy. As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. Group Adjusted Profit after tax is defined as the Group’s profit after tax before non-recurring items (attributable to the owners of the Company) taking into account distributions under other equity instruments, such as the annual AT1 coupon. For Capital Requirements Regulation (CRR) purposes a payout of 50% of the Group’s adjusted recurring profitability for the period, the high-end of the payout range, is prescribed, corresponding to a CET1 ratio of 15.6% and a Total Capital Ratio of 20.7% as at 30 June 2023.

Minimum CET1 Regulatory Capital Requirements	**30 June 2023**	2022
Pillar I – CET1 Requirement	4.50%	4.50%
Pillar II – CET1 Requirement	1.73%	1.83%
Capital Conservation Buffer (CCB)*	2.50%	2.50%
Other Systematically Important Institutions (O-SII) Buffer**	1.50%	1.25%
Countercyclical Buffer (CcyB)	0.02%	0.02%
Minimum CET1 Regulatory Requirements	10.26%	10.10%

** Fully phased in as of 1 January 2019*
*** Fully phased in as of 1 January 2023*

Minimum Total Capital Regulatory Requirements	**30 June 2023**	**2022**
Pillar I – Total Capital Requirement	8.00%	8.00%
Pillar II – Total Capital Requirement	3.08%	3.26%
Capital Conservation Buffer (CCB)*	2.50%	2.50%
Other Systematically Important Institutions (O-SII) Buffer**	1.50%	1.25%
Countercyclical Buffer (CcyB)	0.02%	0.02%
Minimum Total Capital Regulatory Requirements	**15.10%**	**15.03%**

** Fully phased in as of 1 January 2019*
*** Fully phased in as of 1 January 2023*

The minimum Pillar I total capital requirement ratio of 8.00% may be met, in addition to the 4.50% CET1 requirement, with up to 1.50% by AT1 capital and with up to 2.00% by T2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar I capital requirements (Pillar II add-ons). Applicable Regulation allows a part of the said Pillar II Requirements (P2R) to be met also with AT1 and T2 capital and does not require solely the use of CET1.

6. Capital management (continued)

In the context of the annual SREP conducted by the ECB in 2022 and based on the final SREP decision received in December 2022 effective from 1 January 2023, the P2R has been revised to 3.08%, compared to the previous level of 3.26%. The revised P2R includes a revised P2R add-on of 0.33%, compared to the previous level of 0.26%, relating to ECB's prudential provisioning expectations. The P2R add-on is dynamic and can vary on the basis of in-scope NPEs and level of provisioning. When disregarding the P2R add-on relating to ECB's prudential provisioning expectations, the P2R is reduced from 3.00% to 2.75%. As a result, the Group's minimum phased in CET1 capital ratio and Total Capital ratio requirements were reduced when disregarding the phasing in of the O-SII Buffer. The Group's minimum phased in CET1 capital ratio requirement was set at 10.26%, comprising a 4.50% Pillar I requirement, a P2R of 1.73%, the CCB of 2.50%, the O-SII Buffer of 1.50% (fully phased in on 1 January 2023) and the CcyB of 0.02%. The Group's minimum phased in Total Capital requirement was set at 15.10%, comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a P2R of 3.08%, the CCB of 2.50%, the O-SII Buffer of 1.50% and the CcyB of 0.02%. The ECB has also maintained the P2G unchanged.

The Group is subject to a 3% Pillar I Leverage Ratio requirement.

The above minimum ratios apply for both BOC PCL and the Group.

The capital position of the Group and BOC PCL as at 30 June 2023 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

The CBC, in accordance with the Macroprudential Oversight of Institutions Law of 2015, sets, on a quarterly basis, the CcyB rates in accordance with the methodology described in this law. The CcyB for the Group as at 30 June 2023 has been calculated at approximately 0.02%.

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the CcyB rate from 0.00% to 0.50% of the total risk exposure amount in Cyprus of each licensed credit institution incorporated in Cyprus. The new rate of 0.50% must be observed as from 30 November 2023. Moreover, on 2 June 2023, the CBC, announced its decision to raise the CcyB rate to 1.00% of the total risk exposure amount in Cyprus of each authorised credit institution incorporated in Cyprus. The said increase of the CcyB is effective as from 2 June 2024. Based on the above, the CcyB for the Group is expected to increase further.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII Buffer requirement for these systemically important banks. BOC PCL has been designated as an O-SII and since November 2021 the O-SII Buffer has been set to 1.50%. This buffer was phased in gradually, having started from 1 January 2019 at 0.50%. The O-SII Buffer as at 31 December 2022 stood at 1.25% and was fully phased in on 1 January 2023.

The EBA final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that the own funds held for the purposes of Pillar II Guidance (P2G) cannot be used to meet any other capital requirements (Pillar I requirement, P2R or the Combined Buffer Requirement (CBR)), and therefore cannot be used twice.

6. Capital management (continued)

The capital position of the Group and BOC PCL as at the reporting date (after applying the transitional arrangements) is presented below:

Regulatory capital	Group		BOC PCL	
	30 June 2023[1]	31 December 2022[3] (restated)	**30 June 2023**[2]	31 December 2022[3] (restated)
	€000	€000	**€000**	€000
Transitional Common Equity Tier 1 (CET1)[4]	**1,638,707**	1,540,292	**1,601,417**	1,509,056
Transitional Additional Tier 1 capital (AT1)	**228,250**	220,000	**228,250**	220,000
Tier 2 capital (T2)	**300,000**	300,000	**300,000**	300,000
Transitional total regulatory capital	**2,166,957**	2,060,292	**2,129,667**	2,029,056
Risk weighted assets – credit risk[5]	**9,245,884**	9,103,330	**9,229,649**	9,150,831
Risk weighted assets – market risk	**-**	-	**-**	-
Risk weighted assets – operational risk	**1,010,885**	1,010,885	**997,720**	997,720
Total risk weighted assets	**10,256,769**	10,114,215	**10,227,369**	10,148,551
Transitional	**%**	%	**%**	%
Common Equity Tier 1 ratio	**16.0**	15.2	**15.7**	14.9
Total capital ratio	**21.1**	20.4	**20.8**	20.0
Leverage ratio	**7.3**	7.0	**7.2**	6.9

1. Includes reviewed profits for the six months ended 30 June 2023 and an accrual for dividend at a payout ratio of 30% of the Group Adjusted Profit after tax for the period, which represents the low-end range of the Group's approved dividend policy. As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. For Capital Requirements Regulation (CRR) purposes a payout of 50% of the Group's adjusted recurring profitability for the period, the high-end of the payout range, is prescribed, corresponding to a CET1 ratio of 15.6%, a Total Capital ratio of 20.7% and a Leverage ratio of 7.1% as at 30 June 2023.

2. Includes unaudited/un-reviewed profits for the six months ended 30 June 2023 and an accrual for dividend at a payout ratio of 30% of the Group Adjusted Profit after tax for the period, which represents the low-end range of the Group's approved dividend policy. As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. For Capital Requirements Regulation (CRR) purposes a payout of 50% of the Group's adjusted recurring profitability for the period, the high-end of the payout range, is prescribed corresponding to a CET1 ratio of 15.3%, a Total Capital ratio of 20.4% and a Leverage ratio of 7% as at 30 June 2023.

3. The 2022 capital ratios as previously reported in the 2022 Annual Financial Report and 2022 Pillar III Disclosures have been restated following the approval by the ECB for the payment of a dividend in April 2023 and recommendation by the Board of Directors to the shareholders for approval at the Annual General Meeting on 26 May 2023, of a final dividend in respect of earnings for the year ended 31 December 2022 which amounts to an aggregate distribution of €22,310 thousand.

4. CET1 includes regulatory deductions, comprising, amongst others, intangible assets amounting to €27,227 thousand for the Group and €18,310, thousand for BOC PCL as at 30 June 2023 (31 December 2022: €30,421 thousand for the Group and €25,445 thousand for BOC PCL). As at 30 June 2023 an amount of €11,475 thousand, relating to intangible assets, is considered prudently valued for CRR purposes and is not deducted from CET1 (31 December 2022: €12,934 thousand).

5. Includes Credit Valuation Adjustments (CVA).

6. Capital management (continued)

The capital ratios of the Group and BOC PCL as at the reporting date on a fully loaded basis are presented below:

Fully loaded	Group		BOC PCL	
	30 June 2023[1,3]	31 December 2022[4,5] (restated)	**30 June 2023[2,3]**	31 December 2022[4,5] (restated)
	%	%	**%**	%
Common Equity Tier 1 ratio	**15.9**	14.5	**15.6**	14.1
Total capital ratio	**21.1**	19.6	**20.8**	19.3
Leverage ratio	**7.3**	6.7	**7.1**	6.5

1. Includes reviewed profits for the six months ended 30 June 2023 and an accrual for dividend at a payout ratio of 30% of the Group Adjusted Profit after tax for the period, which represents the low end range of the Group's approved dividend policy. As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. For Capital Requirements Regulation (CRR) purposes a payout of 50% of the Group's adjusted recurring profitability for the period, the high end of the payout range, is prescribed corresponding to a fully loaded CET1 ratio of 15.5%, a fully loaded Total Capital ratio of 20.7% and a fully loaded Leverage ratio of 7.1% as at 30 June 2023.
2 Includes unaudited/un-reviewed profits for the six months ended 30 June 2023 and an accrual for dividend at a payout ratio of 30% of the Group Adjusted Profit after tax for the period, which represents the low end range of the Group's approved dividend policy. As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. For Capital Requirements Regulation (CRR) purposes a payout of 50% of the Group's adjusted recurring profitability for the period, the high end of the payout range, is prescribed corresponding to a fully loaded CET1 ratio of 15.2%, a fully loaded Total Capital ratio of 20.4% and a fully loaded Leverage ratio of 7% as at 30 June 2023.
3 IFRS 9 fully loaded as applicable.
4 IFRS 9 and application of the temporary treatment of certain FVOCI instruments in accordance with Article 468 of CRR fully loaded as applicable.
5 The 2022 capital ratios as previously reported in the 2022 Annual Financial Report and 2022 Pillar III Disclosures have been restated following the approval by the ECB for the payment of a dividend in April 2023 and recommendation by the Board of Directors to the shareholders for approval at the Annual General Meeting on 26 May 2023, of a final dividend in respect of earnings for the year ended 31 December 2022 which amounts to an aggregate distribution of €22,310 thousand.

During the six months ended 30 June 2023, CET1 ratio was negatively affected mainly by the phasing in of IFRS 9 and other transitional adjustments on 1 January 2023, provisions and impairments, the payment of AT1 coupon, AT1 refinancing costs, other movements and the increase in risk-weighted assets and was positively affected by pre-provision income as well as the €50 million dividend distributed to BOC PCL in February 2023 by the life insurance subsidiary. As a result, the CET1 ratio (on a transitional basis) has increased by c.75 bps during the six months ended 30 June 2023, whereas on a fully loaded basis the ratio has increased by c.150 bps.

In addition, a prudential charge in relation to the onsite inspection on the value of the Group's foreclosed assets is being deducted from own funds since June 2021, the impact of which is 17 bps on the Group's CET1 ratio as at 30 June 2023, decreased from 26bps on 31 December 2022 mainly due to impairment recognised during the period.

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

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

At the same time, the Company invited the holders of its outstanding €220 million Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities callable in December 2023 to tender the previous AT1 issue in 2018 ('Existing Capital Securities') at a purchase price of 103% of the principal amount. As at 30 June 2023 Existing Capital Securities of a nominal amount of approximately €8 million remaining outstanding, are included in Tier 1 and Total Capital, the impact of which is c.8 bps on the Group's Total Capital Ratio as at 30 June 2023.

6. Capital management (continued)

Transitional arrangements

The Group has elected in prior years to apply the 'static-dynamic' approach in relation to the transitional arrangements for the initial application of IFRS 9 for regulatory capital purposes, where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased in gradually. The 'static-dynamic' approach allows for recalculation of the transitional adjustment periodically on Stage 1 and Stage 2 loans, to reflect the change of the ECL provisions within the transition period. The Stage 3 ECL remained static over the transition period as per the impact upon initial recognition.

The amount added each year for the 'static component' was decreasing based on a weighting factor until the impact of IFRS 9 was fully absorbed back to CET1 at the end of the five years, with the impact being fully phased-in (100%) on 1 January 2023. The cumulative impact on the capital position as at 31 December 2022 was 75%, with the impact being fully phased in (100%) on 1 January 2023.

Following the June 2020 amendments to the CRR in relation to the dynamic component a 100% add back of IFRS 9 provisions was allowed for the years 2020 and 2021, reducing to 75% in 2022, to 50% in 2023 and to 25% in 2024. This will be fully phased in (100%) by 1 January 2025. The calculation at each reporting period is against Stage 1 and Stage 2 provisions as at 1 January 2020, instead of 1 January 2018.

In relation to the temporary treatment of unrealized gains and losses for certain exposures measured at fair value through other comprehensive income, Regulation EU 2020/873 allows institutions to remove from their CET1 the amount of unrealized gains and losses accumulated since 31 December 2019, excluding those of financial assets that are credit impaired. The relevant amount was removed at a scaling factor of 100% from January to December 2020, reduced to 70% from January to December 2021 and to 40% from January to December 2022. The Group applied the temporary treatment from the third quarter of 2020.

Capital requirements of subsidiaries

The insurance subsidiaries of the Group, the General Insurance of Cyprus Ltd and Eurolife Ltd, comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO), complies with the minimum capital adequacy ratio requirements. From 2021 the new prudential regime for Investment Firms ('IFs') as per the Investment Firm Regulation (EU) 2019/2033 ('IFR') on the prudential requirements of IFs and the Investment Firm Directive (EU) 2019/2034 ('IFD') on the prudential supervision of IFs came into effect. Under the new regime CISCO has been classified as Non-Systemic 'Class 2' company and is subject to the new IFR/IFD regime in full. In February 2023, the activities of the regulated UCITS management company of the Group, BOC Asset Management Ltd, were absorbed by CISCO and BOC Asset Management Ltd was dissolved without liquidation. The payment services subsidiary of the Group, JCC Payment Services Ltd, complies with the regulatory capital requirements.

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

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

6. Capital management (continued)

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

In February 2023, BOC PCL received notification from the Single Resolution Board (SRB) of the final decision for the binding MREL for BOC PCL, determined as the preferred resolution point of entry. As per the decision, the final MREL requirement was set at 24.35% of risk weighted assets and 5.91% of Leverage Ratio Exposure (LRE) (as defined in the CRR) and must be met by 31 December 2025. Furthermore, the binding interim requirement of 1 January 2022 set at 14.94% of risk weighted assets and 5.91% of LRE must continue to be met. The own funds used by BOC PCL to meet the CBR are not eligible to meet its MREL requirements expressed in terms of risk-weighted assets. BOC PCL must comply with the MREL requirement at the consolidated level, comprising BOC PCL and its subsidiaries.

The MREL ratio[7] as at 30 June 2023, calculated according to the SRB's eligibility criteria currently in effect and based on internal estimate, stood at 21.5% of RWAs and at 10.2% of LRE. In July 2023 BOC PCL proceeded with an issue of €350 million senior preferred notes (the 'Notes'). The Notes comply with the MREL criteria and expected to contribute towards BOC PCL's MREL requirements. When accounting for the Notes, BOC PCL's MREL ratio improves to 24.9% of RWA and 11.4% of LRE. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR requirement, which stood at 4.02% on 30 June 2023 (compared to 3.77% as at 31 December 2022), expected to increase further on 30 November 2023 following increase in CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus and to 1% from June 2024 as announced by Central Bank of Cyprus.

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

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

[7] The MREL ratio as at 30 June 2023 includes an amount of approximately €8 million representing the nominal amount of securities remaining outstanding following the tender offer and open market purchases of the Existing Capital Securities. This amount contributes approximately 8 basis points to the MREL ratio expressed as a percentage of RWA and approximately 3 basis points to the MREL ratio expressed as a percentage of LRE.

Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022 (restated)
	Notes	**€000**	€000
Turnover	*7*	**646,203**	414,996
Interest income	*8*	**403,852**	181,470
Income similar to interest income	*8*	**22,172**	9,518
Interest expense	*9*	**(56,083)**	(37,514)
Expense similar to interest expense	*9*	**(11,599)**	(7,752)
Net interest income		**358,342**	145,722
Fee and commission income		**93,879**	98,086
Fee and commission expense		**(4,275)**	(4,447)
Net foreign exchange gains		**15,839**	11,898
Net gains/(losses) on financial instruments	*10*	**5,680**	(10,183)
Net gains on derecognition of financial assets measured at amortised cost		**5,861**	1,648
Net insurance finance income/(expense) and net reinsurance finance income/(expense)		**263**	2,653
Net insurance service result		**34,086**	31,268
Net reinsurance service result		**(9,788)**	(10,197)
Net gains/(losses) from revaluation and disposal of investment properties		**788**	(1,372)
Net gains on disposal of stock of property		**3,906**	8,242
Other income		**12,200**	8,927
Total operating income		**516,781**	282,245
Staff costs	*11*	**(93,043)**	(98,303)
Special levy on deposits and other levies/contributions	*11*	**(18,236)**	(16,507)
Provisions for pending litigations, claims, regulatory and other matters (net of reversals)	*27*	**(14,148)**	(594)
Other operating expenses	*11*	**(70,456)**	(75,824)
Operating profit before credit losses and impairment		**320,898**	91,017
Credit losses on financial assets	*12*	**(36,772)**	(24,826)
Impairment net of reversals on non-financial assets	*12*	**(23,206)**	(12,157)
Profit before tax		**260,920**	54,034
Income tax	*13*	**(39,768)**	(11,158)
Profit after tax for the period		**221,152**	42,876
Attributable to:			
Owners of the Company		**220,247**	42,214
Non-controlling interests		**905**	662
Profit for the period		**221,152**	42,876
Basic profit per share attributable to the owners of the Company (€ cent)	*14*	**49.4**	9.5
Diluted profit per share attributable to the owners of the Company (€ cent)	*14*	**49.3**	9.5

		Six months ended 30 June	
		2023	2022 (restated)
	Notes	**€000**	€000
Profit for the period		**221,152**	42,876
Other comprehensive income (OCI)			
OCI that may be reclassified in the consolidated income statement in subsequent periods		**3,299**	(20,412)
Fair value reserve (debt instruments)		**3,373**	(17,909)
Net gains/(losses) on investments in debt instruments measured at fair value through OCI (FVOCI)		**3,705**	(17,421)
Transfer to the consolidated income statement on disposal		**(332)**	(488)
Foreign currency translation reserve		**(74)**	(2,503)
(Losses)/profit on translation of net investments in foreign branches and subsidiaries		**(71)**	1,576
Losses on hedging of net investments in foreign branches and subsidiaries	*16*	**(3)**	(4,079)
OCI not to be reclassified in the consolidated income statement in subsequent periods		**486**	(211)
Fair value reserve (equity instruments)		**(681)**	(2,051)
Net losses on investments in equity instruments designated at FVOCI		**(681)**	(2,051)
Property revaluation reserve		**824**	-
Fair value gains before tax		**798**	-
Deferred tax	*13*	**26**	-
Actuarial gains on the defined benefit plans		**343**	1,840
Remeasurement gains on defined benefit plans		**343**	1,840
Other comprehensive income/(loss) for the period net of taxation		**3,785**	(20,623)
Total comprehensive income for the period		**224,937**	22,253
Attributable to:			
Owners of the Company		**224,026**	21,591
Non-controlling interests		**911**	662
Total comprehensive income for the period		**224,937**	22,253

		30 June 2023	31 December 2022 (restated)	1 January 2022 (restated)
Assets	*Notes*	**€000**	€000	€000
Cash and balances with central banks	*28*	**9,127,429**	9,567,258	9,230,883
Loans and advances to banks	*28*	**431,812**	204,811	291,632
Derivative financial assets	*16*	**49,302**	48,153	6,653
Investments at FVPL	*15*	**138,661**	190,209	199,194
Investments at FVOCI	*15*	**487,806**	467,375	748,695
Investments at amortised cost	*15*	**2,703,240**	2,046,119	1,191,274
Loans and advances to customers	*18*	**10,007,819**	9,953,252	9,836,405
Life insurance business assets attributable to policyholders		**587,882**	542,321	551,797
Prepayments, accrued income and other assets	*20*	**609,607**	609,054	583,777
Stock of property	*19*	**945,831**	1,041,032	1,111,604
Investment properties		**74,339**	85,099	117,745
Deferred tax assets	*13*	**227,953**	227,934	265,942
Property and equipment		**267,410**	253,378	252,130
Intangible assets		**47,546**	52,546	54,144
Non-current assets and disposal groups held for sale		**-**	-	358,951
Total assets		**25,706,637**	25,288,541	24,800,826
Liabilities				
Deposits by banks		**448,713**	507,658	457,039
Funding from central banks	*21*	**2,004,480**	1,976,674	2,969,600
Derivative financial liabilities	*16*	**18,391**	16,169	32,452
Customer deposits	*22*	**19,166,155**	18,998,319	17,530,883
Insurance liabilities		**631,917**	599,992	623,791
Accruals, deferred income, other liabilities and other provisions	*24*	**429,585**	379,182	356,697
Provisions for pending litigation, claims, regulatory and other matters	*27*	**128,267**	127,607	104,108
Debt securities in issue	*23*	**291,976**	297,636	302,555
Subordinated liabilities	*23*	**309,348**	302,104	340,220
Deferred tax liabilities	*13*	**34,618**	34,634	39,817
Total liabilities		**23,463,450**	23,239,975	22,757,162
Equity				
Share capital	*25*	**44,620**	44,620	44,620
Share premium	*25*	**594,358**	594,358	594,358
Revaluation and other reserves		**80,686**	76,939	99,541
Retained earnings		**1,264,795**	1,090,349	1,062,711
Equity attributable to the owners of the Company		**1,984,459**	1,806,266	1,801,230
Other equity instruments	*25*	**235,517**	220,000	220,000
Non-controlling interests		**23,211**	22,300	22,434
Total equity		**2,243,187**	2,048,566	2,043,664
Total liabilities and equity		**25,706,637**	25,288,541	24,800,826

Mr. E.G. Arapoglou
Chairman

Mr. P. Nicolaou
Chief Executive Officer

Mr. N. Sofianos
Director

Mrs. E. Livadiotou
Executive Director Finance

	Attributable to the owners of the Company												
	Share capital (Note 25)	Share premium (Note 25)	Treasury shares (Note 25)	Other capital reserves (Note 11)	Retained earnings	Property revaluation reserve	Financial instruments fair value reserve	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments (Note 25)	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
31 December 2022	44,620	594,358	(21,463)	322	1,041,152	74,170	7,142	101,301	16,768	**1,858,370**	220,000	22,300	**2,100,670**
Impact of retrospective application of IFRS 17 adoption	-	-	-	-	49,197	-	-	(101,301)	-	**(52,104)**	-	-	**(52,104)**
31 December 2022 (restated)/1 January 2023	**44,620**	**594,358**	**(21,463)**	**322**	**1,090,349**	**74,170**	**7,142**	**-**	**16,768**	**1,806,266**	**220,000**	**22,300**	**2,048,566**
Profit for the period	-	-	-	-	220,247	-	-	-	-	**220,247**	-	905	**221,152**
Other comprehensive income/(loss) after tax for the period	-	-	-	-	343	818	2,692	-	(74)	**3,779**	-	6	**3,785**
Total comprehensive income/(loss) after tax for the period	-	-	-	-	220,590	818	2,692	-	(74)	**224,026**	-	911	**224,937**
Dividends (Note 26)	-	-	-	-	(22,310)	-	-	-	-	**(22,310)**	-	-	**(22,310)**
Share-based benefits - cost (Note 11)	-	-	-	311	-	-	-	-	-	**311**	-	-	**311**
Payment of coupon to AT1 holders (Note 25)	-	-	-	-	(13,750)	-	-	-	-	**(13,750)**	-	-	**(13,750)**
Issue of other equity instruments (Note 25)	-	-	-	-	(3,530)	-	-	-	-	**(3,530)**	220,000	-	**216,470**
Repurchase of other equity instruments (Note 25)	-	-	-	-	(6,554)	-	-	-	-	**(6,554)**	(204,483)	-	**(211,037)**
30 June 2023	**44,620**	**594,358**	**(21,463)**	**633**	**1,264,795**	**74,988**	**9,834**	**-**	**16,694**	**1,984,459**	**235,517**	**23,211**	**2,243,187**

	Attributable to the owners of the Company											
	Share capital (Note 25)	Share premium (Note 25)	Treasury shares (Note 25)	Retained earnings	Property revaluation reserve	Financial instruments fair value reserve	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments (Note 25)	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
1 January 2022	44,620	594,358	(21,463)	986,623	80,060	23,285	113,651	17,659	**1,838,793**	220,000	22,434	**2,081,227**
Impact of retrospective application of IFRS 17 adoption	-	-	-	76,088	-	-	(113,651)	-	**(37,563)**	-	-	**(37,563)**
Restated balance at 1 January 2022	**44,620**	**594,358**	**(21,463)**	**1,062,711**	**80,060**	**23,285**	**-**	**17,659**	**1,801,230**	**220,000**	**22,434**	**2,043,664**
Profit for the period	-	-	-	42,214	-	-	-	-	**42,214**	-	662	**42,876**
Other comprehensive income/(loss) after tax for the period	-	-	-	1,840	-	(19,960)	-	(2,503)	**(20,623)**	-	-	**(20,623)**
Total comprehensive income/(loss) after tax for the period	-	-	-	44,054	-	(19,960)	-	(2,503)	**21,591**	-	662	**22,253**
Defence contribution	-	-	-	(4,983)	-	-	-	-	**(4,983)**	-	-	**(4,983)**
Payment of coupon to AT1 holders (Note 25)	-	-	-	(13,750)	-	-	-	-	**(13,750)**	-	-	**(13,750)**
30 June 2022	**44,620**	**594,358**	**(21,463)**	**1,088,032**	**80,060**	**3,325**	**-**	**15,156**	**1,804,088**	**220,000**	**23,096**	**2,047,184**

		Six months ended 30 June	
		2023	2022 (restated)
	Note	**€000**	€000
Profit before tax		**260,920**	54,034
Adjustments for:			
Depreciation of property and equipment and amortisation of intangible assets		**16,901**	16,908
Impairment net of reversals on non-financial assets		**23,206**	12,157
Credit losses on financial assets		**36,772**	24,826
Net gains on derecognition of financial assets measured at amortised cost		**(5,861)**	(1,648)
Amortisation of discounts/premiums and interest on debt securities		**(24,735)**	(8,767)
Dividend income		**(439)**	(368)
Net loss on disposal of investment in debt securities measured at FVOCI		**433**	2,826
(Gain)/loss from revaluation of financial instruments designated as fair value hedges		**(9,473)**	38,007
Interest on subordinated liabilities and debt securities in issue		**13,956**	14,258
Negative interest on loans and advances to banks and balances with central banks		**-**	20,104
Interest/(negative) interest on funding from central banks		**27,806**	(14,792)
Loss on disposal/dissolution of subsidiaries and associates		**-**	(179)
Share-based benefits cost	*11*	**311**	-
Net gains on disposal of stock of property and investment properties		**(4,868)**	(8,358)
Profit on sale and write offs of property and equipment and intangible assets		**(12)**	(51)
Interest expense on lease liability		**1,433**	-
Premium tax included in net insurance service result as directly attributable expense		**1,070**	955
Net losses from revaluation of investment properties		**174**	1,488
Net exchange differences		**2,290**	(23,236)
		339,884	128,164
Change in:			
Loans and advances to banks		**3,696**	36,345
Deposits by banks		**(58,945)**	34,983
Obligatory balances with central banks		**(23,925)**	(7,883)
Customer deposits		**167,836**	919,333
Life insurance business assets attributable to policyholders and Insurance liabilities		**(13,636)**	(19,715)
Loans and advances to customers		**(82,889)**	(356,885)
Prepayments, accrued income and other assets		**(4,941)**	(3,760)
Provisions for pending litigation, claims, regulatory and other matters		**(110)**	685
Accruals, deferred income, other liabilities and other provisions		**12,287**	29,534
Derivative financial instruments		**1,073**	(54,464)
Investments measured at FVPL		**51,548**	17,876
Stock of property		**61,778**	86,519
		453,656	810,732
Tax paid		**(764)**	(441)
Net cash from operating activities		**452,892**	810,291
Cash flows from investing activities			
Purchases of debt, treasury bills and equity securities		**(828,338)**	(329,751)
Proceeds on disposal/redemption of investments in debt and equity securities		**166,577**	295,856
Interest received from debt securities		**18,299**	17,230
Dividend income from equity securities		**439**	368
Payment for purchase of Velocity 2		**(3,604)**	-
Deposits on held for sale portfolios		**-**	900
Purchases of property and equipment		**(2,246)**	(817)
Purchases of intangible assets		**(4,484)**	(6,046)
Proceeds on disposals of property and equipment and intangible assets		**167**	109
Proceeds on disposals of investment properties		**2,921**	23,384
Net cash (used in)/from investing activities		**(650,269)**	1,233

		Six months ended 30 June	
		2023	2022 (restated)
	Note	**€000**	€000
Cash flow from financing activities			
Payment of AT1 coupon	*25*	**(13,750)**	(13,750)
Issue of other equity instruments (net of transaction costs)	*25*	**216,470**	-
Repurchase of other equity instruments	*25*	**(211,037)**	-
Payment of defence contribution		**-**	(4,983)
Repayments of subordinated liabilities		**-**	(35,605)
Dividend paid		**(16,614)**	-
Interest on subordinated liabilities		**-**	(3,293)
Interest on debt securities in issue		**(7,500)**	(7,500)
Negative interest on loans and advances to banks and balances with central banks		**-**	(20,104)
Principal elements of lease payments		**(3,430)**	(3,507)
Net cash used in financing activities		**(35,861)**	(88,742)
Net (decrease)/increase in cash and cash equivalents		**(233,238)**	722,782
Cash and cash equivalents 1 January		**9,586,153**	9,255,210
30 June	*28*	**9,352,915**	9,977,992

Non-cash transactions

Repossession of collaterals
During the six months ended 30 June 2023, the Group acquired properties by taking possession of collaterals held as securities for loans and advances to customers of €5,815 thousand (30 June 2022: €23,058 thousand).

Recognition of RoU asset and lease liabilities
During the six months ended 30 June 2023, the Group recognised RoU assets and corresponding lease liabilities of €2,234 thousand (30 June 2022: €136 thousand).

1. Corporate information

Bank of Cyprus Holdings Public Limited Company (the 'Company') was incorporated in Ireland on 11 July 2016, as a public limited company under company number 585903 in accordance with the provisions of the Companies Act 2014 of Ireland (Companies Act 2014). Its registered office is 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland. The Company is domiciled in Ireland and is tax resident in Cyprus.

Bank of Cyprus Holdings Public Limited Company is the holding company of Bank of Cyprus Public Company Limited ('BOC PCL' or the 'Bank') with principal place of business in Cyprus. The Bank of Cyprus Holdings Group (the 'Group') comprises the Company, its subsidiary, BOC PCL, and the subsidiaries of BOC PCL. Bank of Cyprus Holdings Public Limited Company is the ultimate parent company of the Group.

The principal activities of BOC PCL and its subsidiary companies (the 'BOC Group') involve the provision of banking services, financial services, insurance services and the management and disposal of property predominately acquired in exchange of debt.

BOC PCL is a significant credit institution for the purposes of the SSM Regulation and has been designated by the CBC as an 'Other Systemically Important Institution' (O-SII). The Group is subject to joint supervision by the ECB and the CBC for the purposes of its prudential requirements.

The shares of the Company are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE).

Consolidated Condensed Interim Financial Statements
The Consolidated Condensed Interim Financial Statements of the Company for the six months ended 30 June 2023 (the Consolidated Financial Statements) were authorised for issue by a resolution of the Board of Directors on 08 August 2023.

The Consolidated Financial Statements are available on the Group's website www.bankofcyprus.com (Group/Investor Relations/Financial Results).

2. Unaudited financial statements

The Consolidated Financial Statements have not been audited by the Group’s external auditors.

The Group’s external auditors have conducted a review in accordance with the International Standard on Review Engagements 2410 ‘Review of Interim Financial Information performed by the Independent Auditor of the Entity’.

3. Summary of significant accounting policies

3.1 Basis of preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, investments at fair value through other comprehensive income (FVOCI), financial assets (including loans and advances to customers and investments) at fair value through profit or loss (FVPL) and derivative financial assets and derivative financial liabilities that have been measured at fair value, non-current assets held for sale measured at fair value less costs to sell and stock of property measured at net realisable value where this is lower than cost. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Presentation of the Consolidated Financial Statements
The Consolidated Financial Statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated. A comma is used to separate thousands and a dot is used to separate decimals.

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 29.

Comparative information
Comparative information was restated following the adoption of IFRS 17 'Insurance Contracts' on 1 January 2023 as described further below in Note 3.3.1.

3. Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

Furthermore, comparative information was restated following certain changes in the presentation of the primary statements first applied in the 2022 annual consolidated financial statements. More specifically, 'Provisions for pending litigations, claims regulatory and other matters (net of reversals)' previously presented within 'Other operating expenses' is now presented separately on the Consolidated Income Statement.

In addition, comparative information was restated in relation to the presentation of segmental analysis as detailed in Note 7 following an internal re-organisation in the fourth quarter of 2022. This change led to a respective restatement of 'Analysis by Business line' and 'Analysis of total revenue' in Note 7.

3.2 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34), the Transparency (Directive 2004/109/EC) Regulations 2007, as amended, Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019 and the applicable requirements of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

The Consolidated Financial Statements do not comprise statutory financial statements for the purposes of the Companies Act 2014 of Ireland. The Company's statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the year ended 31 December 2022, upon which the auditors have expressed an unqualified opinion, were published on 31 March 2023 and are expected to be delivered to the Registrar of Companies of Ireland within 56 days from 30 September 2023.

The Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the Annual Consolidated Financial Statements of Bank of Cyprus Holdings Group for the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and ESEF requirements, which are available at the Group's website (www.bankofcyprus.com).

3.3 Changes in accounting policies, presentation and disclosures

The accounting policies adopted are consistent with those followed for the preparation of the annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new and amended standards and interpretations as explained in Note 3.3.1.

3.3.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 and which are explained below. The Group has not early adopted any other standard, interpretation or amendments that has been issued but is not yet effective.

IFRS 17: Insurance Contracts
IFRS 17 'Insurance Contracts' (IFRS 17) became effective on 1 January 2023 and as required by the standard, the Group applied the requirements retrospectively with comparative information restated from the transition date, 1 January 2022 as further explained in the 'Transition application' section below. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features.

IFRS 17 is a comprehensive new accounting standard for insurance contracts which replaces IFRS 4 'Insurance Contracts'. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model (the general measurement model or 'GMM') for insurance contracts, supplemented by the variable fee approach ('VFA') for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach ('PAA') mainly for short duration insurance contracts. The main features of the new accounting standard for insurance contracts are the following:

i. The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).
ii. A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., the coverage period).

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

iii. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.
iv. The recognition of insurance revenue and insurance service expenses in the consolidated income statement is based on the concept of services provided during the period.
v. Insurance service result (earned revenue less incurred claims) is presented separately from the insurance finance income or expense.
vi. Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of the risks arising from these contracts.

Transition application

The standard is applied retrospectively using a fully retrospective approach ('FRA') as if it had always been applied, unless it is impracticable to so, in which case either a modified retrospective approach ('MRA') or a fair value approach ('FVA') can be selected. Impracticability assessments were performed based on the requirements of IFRS 17 and considered the availability of data and systems and the requirement not to apply hindsight within the measurement. Following the completion of impracticability assessments, the Group applied the following approaches:
- The FRA for all non-life groups of insurance contracts and non-individual life groups of insurance contracts, irrespective of issue date.
- The MRA for groups of life insurance contracts issued between 2016 and 2021.
- The FVA for groups of life insurance contracts issued prior to 2016.

Modified retrospective approach ('MRA')
The Group is permitted to use the MRA only to the extent that is does not have reasonable and supportable information to apply the FRA. MRA is an approach to achieve the outcome closest to the FRA, with the prescribed modifications to address some of the challenges of retrospective application. Under MRA the below simplifications are permitted:
- assessments at the date of initial recognition of groups of insurance contracts;
- contractual service margin for insurance contracts without direct participation features;
- contractual service margin for insurance contracts with direct participation features; and
- insurance finance income or expenses.

In applying the MRA, the Group used reasonable and supportable information from its existing reporting systems, with the objective to arrive at the outcome closest to the FRA. The Group applied each of the following modifications:
- Groups of contracts issued between 2016 and 2021 contain contracts issued more than one year apart. For these groups, the discount rates on initial recognition were determined at 1 January 2022 instead of at the date of initial recognition.
- For groups of contracts issued between 2016 and 2021, the future cash flows on initial recognition were estimated by considering:
  - the transactions that occurred in the period 2016-2021, plus
  - the expected future cashflows estimated at 31 December 2021.
- For groups of contracts issued between 2016 and 2021, the illiquidity premiums applied to the risk-free yield curves on initial recognition were estimated by determining an average spread between the risk-free yield curves and the discount rates determined retrospectively for the period between 1 January 2016 and 1 January 2022.
- For groups of contracts issued between 2016 and 2021, the risk adjustment for non-financial risk at initial recognition was determined by adjusting the relevant amount at 1 January 2022.
- The amount of the CSM has been released in the profit or loss before 1 January 2022 was determined by comparing the coverage units provided before 1 January 2022 and the expected coverage units at 1 January 2022.

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Determination on transition of the fair value of insurance contract liabilities for which FVA was applied
Under the FVA approach required by IFRS 17, the valuation of insurance liabilities on transition is based on the requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Under the FVA, the CSM of the liability for remaining coverage at the transition date is determined as the difference between the fair value of the groups of insurance contracts and the fulfilment cash flows measured as at that date. There is judgement involved in determining an appropriate fair value, as there is a lack of observable data for actual transactions for closed book insurance businesses and a range of possible modelling approaches. In determining the fair value the Group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities, and the discount rate that would be applied within the IFRS 13 calculation. The approach for setting these included the following:

- The discount rate was derived with an allowance for an illiquidity premium that takes into account the level of 'matching' between the life Insurance assets and related liabilities.
- Solvency II information (i.e. Best Estimate Liabilities and Risk Margin) has been utilised.

The sections below provide a summary of the significant accounting policies applied under IFRS 17, information on the quantitative impact of transition to IFRS 17, the restated consolidated balance sheet at 1 January 2022 and at 31 December 2022 and the restatement impact on the consolidated income statement for the year ended 31 December 2022 and the six months ended 30 June 2022.

Summary of significant accounting policies

Identifying contracts in the scope of IFRS 17

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features.

An insurance contract is a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event.

When identifying contracts in the scope of IFRS 17, there is a need to assess whether contracts need to be treated as a single contract and whether embedded derivatives, investment components and goods and services components need to be separated and accounted for under another standard. For the Group's insurance and reinsurance contracts held, there were no significant changes arising from the application of these requirements.

Level of aggregation

Individual insurance contracts that are managed together and are subject to similar risks are identified as a group.

Contracts that are managed together usually belong to the same product line and have similar characteristics such as being subject to a similar pricing framework or similar product management and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks.

Each group of contracts is then divided into annual cohorts (i.e. by year of issue) and each cohort into three groups, based on expected profitability: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts.

The groups of insurance contracts are established at initial recognition without subsequent reassessment and form the unit of account at which the contracts are measured.

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Contract boundaries

The measurement of a group of insurance contracts includes all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with services. For multiyear (more than one year) non-life contracts, the Group has assessed that they are expected to equal their duration as the Group cannot reprice or terminate the insurance contract during the coverage period.

Measurement

IFRS 17 introduces a standard measurement model, the General Measurement Model (GMM) and allows also for a simplified approach, the Premium Allocation Approach (PAA). IFRS 17 also provides for the Variable Fee Approach (VFA), which is mandatory to apply for insurance contracts with direct participation features upon meeting the eligibility criteria. While the GMM is the default measurement model under IFRS 17, the Group applies the VFA primarily to insurance contracts in the unit-linked life portfolio. The PAA is an optional simplification applicable for measuring the Liability for Remaining Coverage (LRC) for contracts with coverage periods of one year or less, or when doing so approximates the GMM; it is primarily applied by the Group to non-life insurance contracts and to non-individual life insurance contracts as well as to reinsurance contracts of the Group except for the individual life reinsurance agreement, for which the GMM was applied. For the rest of the insurance contracts (individual protection life contracts, the acquired portfolio and health long-term portfolio) and the Liability for Incurred Claims (LIC) of non-life Insurance contracts, the Group applies the GMM approach.

Initial measurement
Groups of insurance contracts under the GMM or the VFA are initially measured as the total of:
- Fulfilment cash flows, which comprise:
  - an estimate of the present value of future cash flows that are expected to arise as the Group fulfils its service under the insurance contracts; and
  - an explicit risk adjustment for non-financial risk (i.e., the risk adjustment held on balance sheet)
- Contractual Service Margin (CSM) which represents the unearned profit that the Group will recognise as it provides insurance contract services.

The fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect both the time value of money and financial risks, plus a risk adjustment for non-financial risk. The discount rate applied reflects the time value of money, the characteristics of the cash flows, the liquidity characteristics of the insurance contracts and, where appropriate, is consistent with observable current market prices.

The risk adjustment for non-financial risk for a group of insurance contracts is the compensation required for bearing the uncertainty in relation to the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment is explicit and determined separately from other fulfilment cash flows.

A CSM arises when, for a group of contracts, the sum of the discounted cash flows and the risk adjustment is a net inflow. If the sum of these is a net outflow, then the group of contracts is onerous and a loss equal to the net outflow is recognised in the consolidated income statement.

Under the PAA, the liability for remaining coverage is initially recognised as the premiums received at initial recognition, minus any insurance acquisition cash flows.

Subsequent measurement
GMM
At the end of each reporting period, IFRS 17 requires that insurance contracts are measured as the sum of:
- Liability for remaining coverage (LRC), comprising fulfilment cash flows related to future service and the CSM at the reporting date; and
- Liability for incurred claims (LIC), comprising fulfilment cash flows related to past service at the reporting date (claims and expenses not yet paid, including claims incurred but not yet reported).

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows:
- Changes related to future service are adjusted against the CSM unless the group of contracts is onerous in which case such changes are recognised in the net insurance service result in the consolidated income statement
- Changes related to past or current service are recognised in the net insurance service result in the consolidated income statement
- The effects of the time value of money and financial risk are recognised as net insurance finance income or expense in the consolidated income statement

The amount of CSM recognised in income statement for services in a period is determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of insurance contracts based on coverage units. Services provided are estimated using coverage units, which reflect the quantity of benefits and the coverage duration.

VFA
The VFA is applied for contracts with direct participation features (contracts where returns are based on the performance of underlying assets). For insurance contracts under the VFA, changes in the Group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM but are recognised in profit or loss as they arise.

PAA
Subsequently to initial measurement, the carrying amount of the LRC is increased with premiums received in the period, minus insurance acquisition cash flows, plus amortisation of acquisition cash flows, minus the amount recognised as insurance revenue for coverage provided in that period. The LRC is not discounted, since at initial recognition, it is expected that the time between providing each part of the coverage and the due date of the related premium is not more than a year.

Reinsurance contracts
The Group applies the same accounting policies to measure a group of reinsurance contracts under PAA, with the following modifications to reflect features that differ from those of insurance contracts. The Group establishes a loss-recovery component on the carrying amount of the asset for remaining coverage for a group of reinsurance contracts, depicting the recovery of losses, where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group.

The Group calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Group expects to recover from the group of reinsurance contracts. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

The subsequent measurement of reinsurance contracts follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance. Where the Group has established a loss-recovery component, the Group subsequently reduces the loss-recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts.

The measurement of reinsurance contracts under the individual life reinsurance agreement follows the same principles as those for insurance contracts measured under the GMM. The carrying amount of the reinsurance contracts at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The risk adjustment for non-financial risk will represent the amount of risk being transferred by the Group to the reinsurer.

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

The CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance.

Contract derecognition
The Group derecognises an insurance contract issued when the obligation specified in the contract expires, is discharged, or is cancelled, or if its terms are modified significantly. When a contract is modified significantly, a new contract based on the modified terms is recognised.

On derecognition of an insurance contract, the Group:
- Adjusts the fulfilment cash flows to eliminate the present value of future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group of contracts,
- Adjusts the CSM of the group of contracts for the change in the fulfilment cash flows, except where such changes are allocated to a loss component; and
- Adjusts the number of coverage units for the expected remaining services, to reflect the number of coverage units derecognised from the group of contracts.

Directly attributable expenses

In accordance with IFRS 17, expenses directly attributable to a group of insurance contracts, which include both acquisition and maintenance costs are incorporated in actual and estimated future cash flows and recognised in the net insurance result. Insurance acquisition cash flows are amortised. Expenses that are not directly attributable are excluded from the measurement of insurance contract liabilities and are recognised in profit and loss as incurred.

Significant judgments and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of insurance and reinsurance assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available by the reporting date. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimates of future cash flows

In estimating future cash flows, the Group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders and other costs that are incurred in fulfilling contracts. These comprise both an allocation of fixed and variable overheads.

The estimates of future cash flows reflect the Group’s view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

The following assumptions were used when estimating future cash flows in relation to life insurance contracts:
- Mortality and morbidity rates
- Expenses and inflation
- Lapse and surrender rates

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

The table below sets out the percentage assumed to apply to industry mortality and morbidity tables in estimating fulfilment cash flows:

Mortality Rates		**Mortality rates***	
		30 June 2023	**31 December 2022**
Males	Smokers	68% A67/70	68% A67/70
	Non-Smokers	48.25% A67/70	48.25% A67/70
Females	Smokers	68% A67/70 rated down by 4 years	68% A67/70 rated down by 4 years
	Non-Smokers	48.25% A67/70 rated down by 4 years	48.25% A67/70 rated down by 4 years

* The Group uses A67/70 UK standard mortality table in setting the mortality assumption, since the Group's own claim experience is not sufficient to allow the development of its own mortality table. To reflect the Group's specific claims experience more accurately, a percentage is applied on the A67/70 UK standard mortality table.

Discount rates

Discount rates are applied to adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows.

IFRS 17 requires that discount rates should:

- Reflect the time value of money, characteristics of the cash flows and liquidity characteristics of the insurance contract
- Be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts (e.g., timing, currency and liquidity)
- Exclude the effect of factors that influence such observable market prices, but do not affect the future cash flows of the insurance contracts

IFRS 17 does not require a particular estimation technique for determining discount rates but provides two alternative approaches that may be used to derive discount rates. The determination of discount rates may be derived from a yield curve that reflects the current market rates of return of an actual or reference portfolio of assets, adjusted to eliminate any factors that are not relevant to the insurance contracts (top-down approach), or discount rates may be derived based on a liquid risk-free yield curve adjusted for an illiquidity premium (bottom-up approach). The Group has elected to apply a bottom-up approach whereby discount rates are derived based on a liquid risk free yield curve adjusted for an illiquidity premium.

The discount rates applied for discounting future cash flows are listed below:

	Year 1		**Year 3**		**Year 5**		**Year 10**		**Year 20**	
	30 June 2023	31 December 2022	**30 June 2023**	31 December 2022	**30 June 2023**	31 December 2022	**30 June 2023**	31 December 2022	**30 June 2023**	31 December 2022
Life insurance contracts (unit-linked)	**3.8%**	2.4%	**3.2%**	2.8%	**3.0%**	2.9%	**2.9%**	3.0%	**2.8%**	2.7%
Life insurance contracts (non-linked)	**3.9%**	2.4%	**3.3%**	2.8%	**3.1%**	2.9%	**3.0%**	3.0%	**2.9%**	2.7%
Non-life insurance contracts	**3.9%**	4.0%	**3.3%**	4.0%	**3.1%**	4.0%	**3.0%**	3.9%	**2.9%**	3.6%

Risk adjustments for non-financial risk

IFRS 17 provides limited prescriptive requirements as to the methodology to be used to calculate the risk adjustment and allows an entity to apply judgement in determining an appropriate estimation technique.

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Life Insurance business
The Group has applied judgement in estimating the risk adjustment, in the following areas:

- Risks included within the risk adjustment calculation - the Group has considered the same risks as under the Solvency II risk margin, specifically for life underwriting and health underwriting risks, as they both use a definition of non-market risks, apart from specific differences referred to in IFRS 17. The excluded categories are counterparty and operational risks.
- Method of calculation - the Group calculates a margin, above best estimate assumptions, for each non-financial risk to which the Group is exposed through issuing insurance contracts. The margins are set so that (in combination) they would cover potential losses from movements in non-financial risks within a specified confidence level. The total of these margins is the risk adjustment. The Group has applied judgement in setting the confidence level applied in the risk adjustment calculation, based on the Group's appetite for accepting the risk inherent in writing insurance contracts and the compensation required for doing so.

The Group has estimated the risk adjustment using a hybrid of Cost of Capital (CoC) and Value at Risk (VaR) techniques. The Group scales up/down the Risk Adjustment calculated under the CoC technique using the VaR technique to reflect the Group's risk appetite and overall strategy.

To calculate the Risk Adjustment, the Group first uses the CoC technique to derive a calibrated normal distribution with a mean that is equal to Best Estimate Liabilities (BEL) at Best Estimate Assumptions and percentile at 99,5% equal to BEL + Solvency Capital Requirements (SCR) (t=0). A 6% CoC rate is applied to the additional capital requirement in future reporting periods to calculate the return required by the Group to compensate for the exposure to non¬financial risk. The CoC method results to a confidence level of 60%.

Using the VaR methodology, to allow for the Group's risk appetite and overall strategy the confidence level is then scaled up to 90% which is the desired confidence level of the Group. The Risk Adjustment is then calculated using the normal distribution and a confidence level of 90%.

Non-life Insurance business
For non-life insurance business the risk adjustment forms a key component of the LIC.

The risk adjustment for LRC forms part of the loss component calculation which is used to determine the groupings of contracts that are expected to be onerous.

Risk adjustment for non-financial risk is determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. It is determined separately for each non-life line of business and allocated to groups of contracts based on the total premiums for each group. It reflects the effects of the diversification benefits between the different lines of business, which are determined using a correlation matrix technique available from EIOPA.

The risk adjustment for non-financial risk is determined using a confidence level technique which stems from a hybrid Cost of Capital and Value at Risk approach. To determine the risk adjustment for non-financial risk for non-life reinsurance contracts, the Group applies this technique to the gross amounts and then by using gross to net ratios it derives the amount of risk being transferred to the reinsurer as the difference between the two results.

The Group estimates the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculates the risk adjustment for non-financial risk at value at risk of the target confidence level. The Group uses a target 75% percentile for the confidence level.

3. **Summary of significant accounting policies** (continued)

3.3 **Changes in accounting policies, presentation and disclosures** (continued)

3.3.1 **New and amended standards and interpretations** (continued)

CSM

The CSM of a group of contracts is recognised in the income statement to reflect services provided in each year, by identifying the coverage units in the group, allocating the CSM remaining at the end of the year equally to each coverage unit provided in the year and expected to be provided in future years, and recognising in income statement the amount of the CSM allocated to coverage units provided in the year. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits and its expected coverage period. The coverage units are reviewed and updated at each reporting date.

Significant accounting policy choices

The significant accounting policy choices applicable to the Group are in relation to:
- Disaggregation of insurance finance income or expenses: The Group has elected to recognise total insurance finance income or expenses in the consolidated income statement in the period in which they arise i.e no disaggregation is applied.
- Deferral of acquisition expenses: The Group has elected to defer insurance acquisition cash flows, in applying the premium allocation approach for which IFRS 17 provides an election to be made.
- Disaggregation of change in risk adjustment for non-financial risk: The Group has elected to disaggregate the change in risk adjustment for non-financial risk between the net insurance service result and net insurance finance income/(expense).

Presentation

The amounts presented in the consolidated income statement under IFRS 17 include:
i. Net insurance finance income/(expense) and net reinsurance finance income/(expense), that comprises of:
    - Net insurance finance income/(expense) which represents the finance related change in the carrying value of a group of insurance contracts comprising interest effects of changes in interest rates and other financial assumptions and the effect of changes in the fair value of underlying items for direct participating contracts
    - Net finance income/(expense) from reinsurance contracts held is the finance related change in the carrying value of a group of reinsurance contracts comprising interest accreted and effects of changes in interest rates and other financial assumptions.
ii. Net insurance service result, that comprises of:
    - Insurance revenue that reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components) and includes among others CSM released during the period, revenue for insurance contracts under the PAA and changes in risk adjustment related to current service period and experience variance.
    - Insurance service expenses that comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.
iii. Net reinsurance service result, that comprises of amounts recovered from reinsurers and reinsurance expenses.

Transition impact

On transition on 1 January 2022, consistent with the disclosures in the 2022 Annual Financial Report, the Group's Total Equity and Equity attributable to the owners of the Company were reduced by €37,563 thousand, reflecting the aggregate impact of the present value of in-force life insurance business (PVIF) elimination and remeasurement of insurance assets and liabilities, both net of associated tax impact. Similarly, adjusting for the impact of IFRS 17 on the profit for the year ended 31 December 2022, the Group's Total Equity and Equity attributable to the owners of the Company at 31 December 2022 as reported under IFRS 4 were reduced by €52,104 thousand, as analysed below.

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

	At 1 January 2022	At 31 December 2022
	€000	€000
IFRS 4 Total Equity	**2,081,227**	**2,100,670**
IFRS 4 Equity attributable to the owners of the Company	**1,838,793**	**1,858,370**
Removal of PVIF asset	(129,890)	(115,776)
Contractual service margin	(43,731)	(41,863)
Removal of IFRS 4 assets and liabilities and recording of IFRS 17 fulfilment cash flows and risk adjustment	129,255	97,028
Tax effect (incl. PVIF tax effect)	7,079	9,601
Other	(276)	(1,094)
Total impact of IFRS 17 restatements	*(37,563)*	*(52,104)*
IFRS 17 Equity attributable to the owners of the Company	**1,801,230**	**1,806,266**
IFRS 17 Total Equity	**2,043,664**	**2,048,566**

The reduction of the Group's equity by €52 million as at 31 December 2022 comprises the elimination of the in-force life insurance business asset (PVIF) and the associated deferred tax liability, resulting in a net decrease of €101 million and the remeasurement of insurance assets and liabilities (including the impact of the contractual service margin) resulting in a net increase in equity by €49 million.

On transition on 1 January 2022, the Group's Tangible Equity attributable to the owners of the Company was increased by €92,327 thousand. Adjusting for the impact of IFRS 17 on the profit for the year ended 31 December 2022, the Group's Tangible Equity attributable to the owners of the Company as at 31 December 2022 as restated under IFRS 17 was increased by €63,672 thousand as analysed below.

	At 1 January 2022	At 31 December 2022
	€000	€000
IFRS 4 Group's Tangible Equity attributable to the owners of the Company	1,654,759	1,690,048
Contractual service margin	(43,731)	(41,863)
Removal of IFRS 4 assets and liabilities and recording of IFRS 17 fulfilment cash flows and risk adjustment	129,255	97,028
Tax effect (incl. PVIF tax effect)	7,079	9,601
Other	(276)	(1,094)
Total impact of IFRS 17 restatements	*92,327*	*63,672*
IFRS 17 Group's Tangible Equity attributable to the owners of the Company	**1,747,086**	**1,753,720**

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Consolidated Income Statement for the year ended 31 December 2022, as restated for IFRS 17 and as previously reported under IFRS 4 is presented below.

	Year ended 31 December 2022	
	IFRS 17 (restated)	IFRS 4 (as previously presented)
	€000	€000
Interest income	**428,849**	428,849
Income similar to interest income	**22,119**	22,119
Interest expense	**(65,721)**	(65,821)
Expense similar to interest expense	**(14,840)**	(14,840)
Net interest income	**370,407**	370,307
Fee and commission income	**202,583**	202,583
Fee and commission expense	**(10,299)**	(10,299)
Net foreign exchange gains	**31,291**	31,291
Net gains/(losses) on financial instruments	**(614)**	10,052
Net gains/(losses) on derecognition of financial assets measured at amortised cost	**5,235**	5,235
Net insurance finance income/(expense) and net reinsurance finance income/(expense)	**4,075**	-
Net insurance service result	**60,530**	-
Net reinsurance service result	**(20,039)**	-
Income from assets under insurance and reinsurance contracts	**-**	114,681
Expenses from liabilities under insurance and reinsurance contracts	**-**	(43,542)
Net losses from revaluation and disposal of investment properties	**(999)**	(999)
Net gains on disposal of stock of property	**13,970**	13,970
Other income	**16,681**	16,681
Total operating income	**672,821**	709,960
Staff costs	**(285,154)**	(294,361)
Special levy on deposits and other levies/contributions	**(38,492)**	(38,492)
Provisions for pending litigations, regulatory and other provisions (net of reversals)	**(11,880)**	(11,880)
Other operating expenses	**(157,916)**	(166,365)
Operating profit before credit losses and impairment	**179,379**	198,862
Credit losses on financial assets	**(59,087)**	(59,529)
Impairment net of reversals on non-financial assets	**(29,549)**	(29,549)
Profit before tax	**90,743**	109,784
Income tax	**(31,312)**	(35,812)
Profit after tax for the year	**59,431**	73,972
Attributable to:		
Owners of the Company	**56,565**	71,106
Non-controlling interests	**2,866**	2,866
Profit for the year	**59,431**	73,972
Basic and diluted profit per share attributable to the owners of the Company (€ cent)	**12.7**	15.9

3. **Summary of significant accounting policies** (continued)

3.3 **Changes in accounting policies, presentation and disclosures** (continued)

3.3.1 **New and amended standards and interpretations** (continued)

Consolidated Balance Sheet at transition date and at 31 December 2022 as restated under IFRS 17 and as previously reported under IFRS 4 is presented below.

	IFRS 17 (restated)		IFRS 4 (as previously presented)	
	31 December 2022	**1 January 2022**	31 December 2022	1 January 2022
Assets	**€000**	**€000**	€000	€000
Cash and balances with central banks	**9,567,258**	**9,230,883**	9,567,258	9,230,883
Loans and advances to banks	**204,811**	**291,632**	204,811	291,632
Derivative financial assets	**48,153**	**6,653**	48,153	6,653
Investments at FVPL	**190,209**	**199,194**	190,209	199,194
Investments at FVOCI	**467,375**	**748,695**	467,375	748,695
Investments at amortised cost	**2,046,119**	**1,191,274**	2,046,119	1,191,274
Loans and advances to customers	**9,953,252**	**9,836,405**	9,953,252	9,836,405
Life insurance business assets attributable to policyholders	**542,321**	**551,797**	542,321	551,797
Prepayments, accrued income and other assets	**609,054**	**583,777**	639,765	616,219
Stock of property	**1,041,032**	**1,111,604**	1,041,032	1,111,604
Investment properties	**85,099**	**117,745**	85,099	117,745
Deferred tax assets	**227,934**	**265,942**	227,521	265,481
Property and equipment	**253,378**	**252,130**	253,378	252,130
Intangible assets	**52,546**	**54,144**	168,322	184,034
Non-current assets and disposal groups held for sale	**-**	**358,951**	-	358,951
Total assets	**25,288,541**	**24,800,826**	25,434,615	24,962,697
Liabilities				
Deposits by banks	**507,658**	**457,039**	507,658	457,039
Funding from central banks	**1,976,674**	**2,969,600**	1,976,674	2,969,600
Derivative financial liabilities	**16,169**	**32,452**	16,169	32,452
Customer deposits	**18,998,319**	**17,530,883**	18,998,319	17,530,883
Insurance liabilities	**599,992**	**623,791**	679,952	736,201
Accruals, deferred income, other liabilities and other provisions	**379,182**	**356,697**	384,004	361,977
Provisions for pending litigation, claims, regulatory and other matters	**127,607**	**104,108**	127,607	104,108
Debt securities in issue	**297,636**	**302,555**	297,636	302,555
Subordinated liabilities	**302,104**	**340,220**	302,104	340,220
Deferred tax liabilities	**34,634**	**39,817**	43,822	46,435
Total liabilities	**23,239,975**	**22,757,162**	23,333,945	22,881,470
Equity				
Share capital	**44,620**	**44,620**	44,620	44,620
Share premium	**594,358**	**594,358**	594,358	594,358
Revaluation and other reserves	**76,939**	**99,541**	178,240	213,192
Retained earnings	**1,090,349**	**1,062,711**	1,041,152	986,623
Equity attributable to the owners of the Company	**1,806,266**	**1,801,230**	1,858,370	1,838,793
Other equity instruments	**220,000**	**220,000**	220,000	220,000
Non-controlling interests	**22,300**	**22,434**	22,300	22,434
Total equity	**2,048,566**	**2,043,664**	2,100,670	2,081,227
Total liabilities and equity	**25,288,541**	**24,800,826**	25,434,615	24,962,697

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Transition impact on the Consolidated Balance Sheet at 1 January 2022

The adjustments to the Group's balance sheet at 1 January 2022 arising on the adoption of IFRS 17 are presented below.

	Balance IFRS 4	Removal of PVIF and IFRS 4 assets and liabilities	IFRS 17 fulfilment cash flows incl. Risk adjustment*	IFRS 17 CSM	Tax effect	Other	Balance IFRS 17	*Total movements*
Assets	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	***€000***
Prepayments, accrued income and other assets	616,219	(70,121)	37,676	-	-	3	583,777	*(32,442)*
Deferred tax assets	265,481	-	-	-	461	-	265,942	*461*
Intangible assets	184,034	(129,890)	-	-	-	-	54,144	*(129,890)*
All other assets	23,896,963	-	-	-	-	-	23,896,963	-
Total assets	24,962,697	(200,011)	37,676	-	461	3	24,800,826	*(161,871)*
Liabilities								
Insurance liabilities	736,201	(735,143)	579,002	43,731	-	-	623,791	*(112,410)*
Accruals, deferred income, other liabilities and other provisions	361,977	(5,559)	-	-	-	279	356,697	*(5,280)*
Deferred tax liabilities	46,435	-	-	-	(6,618)	-	39,817	*(6,618)*
All other liabilities	21,736,857	-	-	-	-	-	21,736,857	-
Total liabilities	22,881,470	(740,702)	579,002	43,731	(6,618)	279	22,757,162	*(124,308)*

** includes reinsurance assets and liabilities adjustments*

Transition drivers

Removal of PVIF and IFRS 4 assets and liabilities
The present value of in-force business ('PVIF') which was previously reported under IFRS 4 within 'Intangible assets' and that arose from the upfront recognition of future profits associated with in-force insurance contracts, is no longer recognized under IFRS 17. The estimated future profits are included in the measurement of the insurance contract liability as the contractual service margin ('CSM'), representing the unearned profit, which will be gradually recognized over the duration of a contract. Other IFRS 4 insurance assets and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 insurance assets and liabilities.

Recognition of the IFRS 17 fulfilment cash flows and risk adjustment
The measurement of insurance contract liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the contractual obligations associated with the insurance contract, such as premiums, expenses, insurance benefits and claims. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment.

Recognition of the IFRS 17 CSM
In contrast to IFRS 4 accounting, where profits were recognised upfront, under IFRS 17 they are deferred within the CSM which is systematically recognized in revenue, as services are provided over the coverage period of groups of insurance contracts.

Tax effect
The removal of deferred tax liability primarily results from the removal of the associated PVIF intangible, and new deferred tax assets and liabilities are reported, where appropriate, on temporary differences between the new IFRS 17 accounting balances and their associated tax bases.

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Transition impact on the Consolidated Income Statement

A summary of the impact of implementing IFRS 17 on the Group's consolidated income statement for the year ended 31 December 2022 is presented below.

	For the year ended 31 December 2022									
	IFRS 4	**Removal of IFRS 4 and reclassifi-cations**	**Net insurance finance income/ expense**	**IFRS 17 CSM**	**IFRS 17 insurance revenue-other than CSM**	**IFRS 17 insurance expense**	**Net expense from reinsurance**	**Attributable expenses (reclassifi-cation to net insurance service result)**	**Tax effect**	**IFRS 17 (restated)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Interest income	428,849	-	-	-	-	-	-	-	-	**428,849**
Income similar to interest income	22,119	-	-	-	-	-	-	-	-	**22,119**
Interest expense	(65,821)	-	-	-	100	-	-	-	-	**(65,721)**
Expense similar to interest expense	(14,840)	-	-	-	-	-	-	-	-	**(14,840)**
Net interest income	370,307	-	-	-	100	-	-	-	-	**370,407**
Fee and commission income	202,583	-	-	-	-	-	-	-	-	**202,583**
Fee and commission expenses	(10,299)	-	-	-	-	-	-	-	-	**(10,299)**
Net foreign exchange gains	31,291	-	-	-	-	-	-	-	-	**31,291**
Net gains/(losses) on financial instruments	10,052	(10,666)	-	-	-	-	-	-	-	**(614)**
Net gains/(losses) on derecognition of financial assets measured at amortised cost	5,235	-	-	-	-	-	-	-	-	**5,235**
Net insurance finance income/(expense) and net reinsurance finance income/(expense)	-	-	4,075	-	-	-	-	-	-	**4,075**
Net insurance service result	-	-	-	5,031	130,061	(74,562)	-	-	-	**60,530**
Net reinsurance service result	-	-	-	-	-	-	(20,039)	-	-	**(20,039)**
Income from assets under insurance and reinsurance contracts	114,681	(114,681)	-	-	-	-	-	-	-	**n/a**
Expenses from liabilities under insurance and reinsurance contracts	(43,542)	43,542	-	-	-	-	-	-	-	**n/a**
Net losses from revaluation and disposal of investment properties	(999)	-	-	-	-	-	-	-	-	**(999)**
Net gains on disposal of stock of property	13,970	-	-	-	-	-	-	-	-	**13,970**
Other income	16,681	-	-	-	-	-	-	-	-	**16,681**
Total operating income	709,960	(81,805)	4,075	5,031	130,161	(74,562)	(20,039)	-	-	**672,821**
Staff costs	(294,361)	-	-	-	-	-	-	9,207	-	**(285,154)**
Special levy on deposits and other levies/contributions	(38,492)	-	-	-	-	-	-	-	-	**(38,492)**
Provisions for pending litigations, regulatory and other provisions (net of reversals)	(11,880)	-	-	-	-	-	-	-	-	**(11,880)**
Other operating expenses	(166,365)	-	-	-	-	-	-	8,449	-	**(157,916)**
Operating profit before credit losses and impairment	198,862	(81,805)	4,075	5,031	130,161	(74,562)	(20,039)	17,656	-	**179,379**
Credit losses on financial assets	(59,529)	-	-	-	442	-	-	-	-	**(59,087)**
Impairment net of reversals on non-financial assets	(29,549)	-	-	-	-	-	-	-	-	**(29,549)**
Profit before tax	109,784	(81,805)	4,075	5,031	130,603	(74,562)	(20,039)	17,656	-	**90,743**
Income tax	(35,812)	-	-	-	-	-	-	77	4,423	**(31,312)**
Profit after tax for the year	73,972	(81,805)	4,075	5,031	130,603	(74,562)	(20,039)	17,733	4,423	**59,431**

3. **Summary of significant accounting policies** (continued)

3.3 **Changes in accounting policies, presentation and disclosures** (continued)

3.3.1 **New and amended standards and interpretations** (continued)

The Consolidated Income Statement for the six months ended 30 June 2022, as restated for IFRS 17 and as previously reported under IFRS 4 is presented below:

	Six months ended 30 June 2022		
	IFRS 4 (as previously presented)	IFRS 17 (adjustments)	**IFRS 17 (restated)**
	€000	€000	**€000**
Turnover	414,996	-	**414,996**
Interest income	181,470	-	**181,470**
Income similar to interest income	9,518	-	**9,518**
Interest expense	(37,541)	27	**(37,514)**
Expense similar to interest expense	(7,752)	-	**(7,752)**
Net interest income	145,695	27	**145,722**
Fee and commission income	98,086	-	**98,086**
Fee and commission expense	(4,447)	-	**(4,447)**
Net foreign exchange gains	11,898	-	**11,898**
Net gains/(losses) on financial instruments	(2,060)	(8,123)	**(10,183)**
Net gains/(losses) on derecognition of financial assets measured at amortised cost	1,648	-	**1,648**
Net insurance finance income/(expense) and net reinsurance finance income/(expense)	-	2,653	**2,653**
Net insurance service result	-	31,268	**31,268**
Net reinsurance service result	-	(10,197)	**(10,197)**
Income from assets under insurance and reinsurance contracts	29,859	(29,859)	**-**
Expenses from liabilities under insurance and reinsurance contracts	3,010	(3,010)	**-**
Net losses from revaluation and disposal of investment properties	(1,372)	-	**(1,372)**
Net gains on disposal of stock of property	8,242	-	**8,242**
Other income	8,927	-	**8,927**
Total operating income	299,486	(17,241)	**282,245**
Staff costs	(103,135)	4,832	**(98,303)**
Special levy on deposits and other levies/contributions	(16,507)	-	**(16,507)**
Provisions for pending litigations, regulatory and other provisions (net of reversals)	(594)	-	**(594)**
Other operating expenses	(79,799)	3,975	**(75,824)**
Operating profit before credit losses and impairment	99,451	(8,434)	**91,017**
Credit losses on financial assets	(24,965)	139	**(24,826)**
Impairment net of reversals on non-financial assets	(12,157)	-	**(12,157)**
Profit before tax	62,329	(8,295)	**54,034**
Income tax	(11,579)	421	**(11,158)**
Profit after tax for the period	50,750	(7,874)	**42,876**
Attributable to:			
Owners of the Company	50,088	(7,874)	**42,214**
Non-controlling interests	662	-	**662**
Profit for the period	50,750	(7,874)	**42,876**
Basic profit per share attributable to the owners of the Company (€ cent)	11.2	(1.7)	**9.5**
Diluted profit per share attributable to the owners of the Company (€ cent)	11.2	(1.7)	**9.5**

3. Summary of significant accounting policies (continued)

3.3 Changes in accounting policies, presentation and disclosures (continued)

3.3.1 New and amended standards and interpretations (continued)

Analysis of new insurance line items included in the consolidated income statement for the year ended 31 December 2022

	Year ended 31 December 2022
	€000
Insurance finance income and expense and reinsurance finance income and expense	41,429
Return on assets backing insurance liabilities	(37,354)
Net insurance finance income/(expense) and net reinsurance finance income/(expense)	**4,075**
Insurance revenue	135,495
Insurance service expenses	(74,562)
Other insurance related income/(expense)	(403)
Net insurance service result	**60,530**
Allocation of reinsurance premiums	(36,170)
Amounts recoverable from reinsurers for incurred claims	16,131
Net reinsurance service result	**(20,039)**
Net insurance result	**44,566**

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (amendments)
The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. These amendments did not have an impact on the Group's results and financial position.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (amendments)
The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. These amendments did not have an impact on the Group's financial results and financial position.

IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments)
The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments typically apply to transactions such as leases for the lessee and decommissioning obligations. These amendments did not have an impact on the Group's results and financial position.

IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules (amendments)
The amendments require an entity to disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. An entity is required to separately disclose its current tax expense (income) related to Pillar Two income taxes, in the periods when the legislation is effective. The amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity’s exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The legislation has not been substantively enacted at the balance sheet date and the Group will continue to monitor the evolving national legislation including any disclosures required, or exemptions available, under IAS 12 in the year ending 31 December 2023.

3. Summary of significant accounting policies (continued)

3.3.2 Standards and Interpretations that are issued but not yet adopted

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2024 (including IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures, and IFRS 16 Leases). These amendments are not expected to have a significant impact on the Group.

4. Going concern

The Directors have made an assessment of the ability of the Group, the Company and BOC PCL to continue as a going concern for a period of 12 months from the date of approval of these Consolidated Financial Statements.

The Directors have concluded that there are no material uncertainties which would cast a significant doubt over the ability of the Group, the Company and BOC PCL to continue to operate as a going concern for a period of 12 months from the date of approval of these Consolidated Financial Statements.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, cash flows, capital requirements and capital resources, taking also into consideration, the Group's Financial Plan approved by the Board in February 2023 (the 'Plan') and the operating environment as well as any reforecast exercises performed. The Group has sensitised its projection to cater for a downside scenario and has used reasonable economic inputs to develop its medium-term strategy. The Group is working towards materialising its Strategy.

Capital
The Directors and Management have considered the Group's forecasted capital position, including the potential impact of a deterioration in economic conditions. The Group has developed capital projections under a base and an adverse scenario and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and liquidity
The Directors and Management have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. The Group continues to hold a significant liquidity buffer at 30 June 2023 that can be easily and readily monetised in a period of stress.

5. Economic and geopolitical environment

The economic environment in 2023 and over the medium term is now subject to a high degree of uncertainty, with the continuation of the war in Ukraine, rising tensions in US-China relations, more persistent inflation and tighter monetary conditions threatening a significant slowdown in the global economy, particularly in Europe. A combination of supply shocks, including rising protectionism, the green transition, persistently low productivity growth, slowing population growth as well as more widespread labour shortages following the pandemic, could potentially result in average inflation over the next few years being higher than over the past years.

Headline inflation has decelerated significantly in the first half of 2023, but core inflation, once the volatile energy and food items are excluded, remains stubbornly sticky. As a result, central banks in advanced countries remain focused on fighting inflation and are likely to continue to raise their policy rates into the third quarter of the year. Interest rates are thus likely to stay higher for longer, subduing growth and extending debt pressures in emerging markets.

Government debt levels in relation to GDP in the advanced economies, fell in 2021-2022 following steep increases in 2020, due to a stronger recovery and higher inflation. However, governments' fiscal space will narrow again in the medium term due to higher interest rates and slower economic growth, limiting their ability to deal with future economic emergencies and potentially increasing the risk of financial instability, especially in more vulnerable countries.

The International Monetary Fund in its Spring World Economic Outlook released in April 2023, predicts slower growth for the global economy and increased financial and other vulnerabilities under tighter monetary conditions.

5. Economic and geopolitical environment (continued)

Cyprus demonstrates relative strength and resilience in this environment with a growth outlook that outweighs average growth in EU and with inflation dropping at a faster pace in comparison. Economic momentum is expected to continue in 2023 at a slower pace, driven mainly by the expected deterioration of external demand, as well as slowing domestic demand caused by still high consumer price inflation.

Cyprus' risk profile has improved significantly, but substantial risks remain in the domestic environment and in the external environment on which it depends. The most important factor weighing on Cyprus' sovereign risk is the high level of public debt. Banks have weathered the pandemic crisis well, with their liquidity and capital buffers intact. Non-performing loans continued their downward trend, mainly due to the sale packages of the two largest banks. However, in an uncertain environment, asset quality remains a focus for bank management and supervisors.

The Group believes it is reasonably well positioned to withstand volatility that may arise from a deterioration in the geopolitical and global economic environment.

Group's Direct exposure to Russia
Russia's invasion of Ukraine has triggered disruptions and uncertainties in the markets and in the global economy. The coordinated implementation of sanctions by the EU, the UK and the U.S., joined by several other countries, imposed against Russia, Belarus and certain regions of Ukraine and certain Russian entities and nationals. The Group's policy is to comply with all applicable laws, including sanctions and export controls.

Overall, the Group's direct exposure to Russia and Belarus remains limited. In summary, the Group has direct lending exposure to Russia and Belarus of a gross book value of approximately €82 million (31 December 2022: approximately €86 million) across its business divisions as at 30 June 2023, of which €74 million (31 December 2022: €76 million) were classified as performing and secured mainly with residential collateral located in Cyprus. The basis of the exposure is expanded compared to the country risk exposure as included in Note 30.2 of the Consolidated Financial Statements which is disclosed by reference to the country of residency/country of registration, to also include exposures for loans and advances to customers with passport of origin in these countries and/or business activities within these countries and/or where the UBO has passport of origin or residency in these countries.

Customer deposit balances with customers with UBO primary passport of origin in these countries amounts to approximately 3.74% of total deposits as at 30 June 2023 as disclosed in Note 22 of the Consolidated Financial Statements.

With respect to the Group's Russian subsidiary, the net exposure is being run down and as a result the net assets included on the Group's balance sheet as at 30 June 2023 are less than €1 million (31 December 2022: less than €1 million).

6. Significant and other judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements requires the Company's Board of Directors and management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the Consolidated Financial Statements and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affecting future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below. The Group based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant judgements, estimates and assumptions relate to the calculation of expected credit losses (ECL), the estimation of the net realisable value of stock of property and the provisions for pending litigation, claims, regulatory and other matters, which are presented in Notes 6.1 to 6.4 below. Other judgements, estimates and assumptions are disclosed in Notes 5.5 to 5.13 of the annual consolidated financial statements for the year ended 31 December 2022.

6. Significant and other judgements, estimates and assumptions (continued)

6.1 Classification of financial assets

The Group exercises judgement upon determining the classification of its financial assets, in relation to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. In general, the assessment for the classification of financial assets into the business models is performed at the level of each business line. Further, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rate could significantly affect future cash flows. Furthermore, judgement is required when assessing whether compensation paid or received on early termination of lending arrangements results in cash flows that are not SPPI.

6.2 Calculation of expected credit losses

The calculation of ECL requires management to apply significant judgement and make estimates and assumptions, involving significant uncertainty at the time these are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Elements of ECL models that are considered accounting judgements and estimates include:

Assessment of significant increase in credit risk (SICR)
IFRS 9 does not include a definition of significant increase in credit risk. The Group assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The determination of the relevant thresholds to determine whether a significant increase in credit risk has occurred, is based on statistical metrics and could be subject to management judgement. The relevant thresholds are set, monitored and updated on a yearly basis by the Risk Management Division and endorsed by the Group Provisions Committee.

Determining the probability of default (PD) at initial recognition requires management estimates in particular cases. Specifically, in the case of exposures existing prior to the adoption of IFRS 9, a retrospective calculation of the PD is made in order to quantify the risk of each exposure at the time of the initial recognition. In certain cases, estimates about the date of initial recognition might be required.

For the retail portfolio, the Group uses a PD at origination incorporating behavioural information (score cards) whereas, for the corporate portfolio, the Group uses the internal credit rating information. For revolving facilities, management estimates are required with respect to the lifetime and hence a behavioural maturity model is utilised, assigning an expected maturity based on product and customer behaviour.

Scenarios and macroeconomic factors
The Group determines the ECL, which is a probability weighted amount, by evaluating a range of possible outcomes. Management uses forward looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in other external factors could significantly impact ECL. Macroeconomic inputs and weights per scenario are monitored by the Economic Research Department and are based on internal model analysis after considering external market data supplemented by expert judgement.

In a challenging international environment, the Cypriot economy has shown considerable resilience. Growth remained strong in 2022 averaging 5.6% which is well above the euro area average, driven almost entirely by services on the supply side. Tourist activity recovered strongly during the year 2022 with arrivals reaching 80% and receipts 90% of their levels in 2019. On the demand side, growth was driven by private consumption and investment, especially inventory accumulation, while the external sector made a negative contribution due to faster growth in imports.

6. Significant and other judgements, estimates and assumptions (continued)

6.2 Calculation of expected credit losses (continued)

First quarter growth for 2023 was 3.4% according to the Cyprus Statistical Service, which was largely as expected. For the year the growth forecast is around 2.8% according to the Ministry of Finance. This follows strong growth of 6.9% and 5.6% respectively in 2021-22 driven by a strong recovery in tourism toward pre-pandemic levels, and also strong growth in other services sectors. GDP growth will be materially supported in 2023 by EU funding in the form of grants and loans from the Recovery and Resilience Facility (RRF). Cyprus has already received €157 million as pre-financing in September 2021 and the first payment of €85 million in December 2022 after achieving the 14 milestones being linked to the first instalment. Cyprus is broadly on track in the implementation of its National Recovery and Resilience Plan.

Harmonised inflation in Cyprus was on average 8.1% in 2022, compared to 8.4% in the Euro area. Inflation peaked in July 2022 at 10.6% and has been decelerating since, reaching 2.8% in June 2023. In the first half of 2023, total harmonised inflation was 4.9% and is expected to moderate further but only gradually. For Cyprus, the European Commission forecasts harmonised inflation of 3.8% in 2023 and 2.5% in 2024.

Developments in 2022 were favourable for public finances. The IMF forecasts fiscal surpluses of 1.9% and 1.7% of GDP and gross debt to GDP of 79.5% and 71.9% for 2023 and 2024 respectively in each case.

The sovereign risk ratings of the Cypriot government have improved significantly in recent years, reflecting reduced banking sector risks, improved economic resilience and consistent fiscal outperformance. Cyprus has demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system.

Banks managed to weather the pandemic crisis well, with their liquidity and capital buffers intact. Non-performing exposures continued their declining trend, mostly to sales packages by the two largest banks. Total NPEs at the end of April 2023 were €2.2 billion or 9% of gross loans. About 44.8% of total non-performing exposures are restructured facilities and the coverage ratio was 54.2%. Private debt, as measured by loans to residents on bank balance sheets, excluding the government, dropped to €20.8 billion at the end of May 2023, or about 77% of GDP.

However, substantial risks remain in terms of the domestic operating environment, as well as the external environment on which it depends. The large stock of public debt weighs heavily on Cyprus' sovereign credit risk. In the banking sector non-performing exposures need to drop further. While the current account deficit will be narrowing as exports services recover in the medium term, it will remain sizable. The monetary policy of the European Central Bank can remain tight for longer if inflation pressures persist. The extent of the crisis in Ukraine can lead to elevated tensions for a considerable period of time.

For the ECL, the Group updated its forward looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments at the national and the EU level based on developments and events as at the reporting date 30 June 2023.

The tables below indicate the most significant macroeconomic variables as well as the scenarios used by the Group as at 30 June 2023 and 31 December 2022 respectively. The Group uses three different economic scenarios in the calculation of default probabilities and provisions. The Group has used the 30-50-20 probability structure for the adverse, base and favourable scenarios respectively compared to the 25-50-25 structure derived using the method described in Note 2.19.5 of the annual consolidated financial statements for the year ended 31 December 2022. This reflects management's view of specific characteristics of the Cyprus economy that render it more vulnerable to external and internal shocks. Given the added uncertainties of the outlook for 2023 and downside risks, a global slowdown and the continuing war in Ukraine with the risk of escalation rising, as well as the tighter monetary environment in the fight against inflation, management decided to maintain an elevated weight on the adverse scenario.

6. Significant and other judgements, estimates and assumptions (continued)

6.2 Calculation of expected credit losses (continued)

30 June 2023

Year	Scenario	Weight %	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2023	Adverse	30.0	-0.7	7.7	2.8	-1.8
	Baseline	50.0	2.9	7.0	3.5	3.0
	Favourable	20.0	3.7	6.9	3.9	3.4
2024	Adverse	30.0	-1.2	8.4	2.4	0.2
	Baseline	50.0	2.6	6.9	2.7	3.1
	Favourable	20.0	3.3	6.7	2.9	3.5
2025	Adverse	30.0	1.3	8.2	2.6	1.1
	Baseline	50.0	2.8	6.4	2.5	2.9
	Favourable	20.0	2.8	6.2	2.6	3.1
2026	Adverse	30.0	3.0	8.2	2.4	2.5
	Baseline	50.0	3.0	6.2	2.5	2.9
	Favourable	20.0	2.9	5.9	2.4	3.0
2027	Adverse	30.0	3.8	7.7	2.5	3.5
	Baseline	50.0	2.9	5.8	2.5	2.9
	Favourable	20.0	2.9	5.3	2.4	3.0

31 December 2022

Year	Scenario	Weight %	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2023	Adverse	30.0	-2.0	7.0	3.7	-2.2
	Baseline	50.0	2.8	6.3	4.7	2.8
	Favourable	20.0	3.6	5.9	5.1	3.3
2024	Adverse	30.0	-0.7	6.8	3.0	-0.8
	Baseline	50.0	2.4	6.0	3.2	2.5
	Favourable	20.0	2.8	5.8	3.3	2.8
2025	Adverse	30.0	1.4	6.7	2.4	1.1
	Baseline	50.0	2.5	5.7	2.3	2.5
	Favourable	20.0	2.6	5.6	2.4	2.6
2026	Adverse	30.0	2.8	6.7	2.4	2.7
	Baseline	50.0	2.8	5.5	2.4	2.5
	Favourable	20.0	3.1	5.3	2.4	2.6
2027	Adverse	30.0	3.5	6.5	2.5	3.5
	Baseline	50.0	2.6	5.2	2.5	2.5
	Favourable	20.0	2.6	4.9	2.4	2.6

The adverse scenarios may outpace the base and favourable scenarios after the initial shock has been adjusted to and the economy starts to expand from a lower base. Thus, in the adverse scenario GDP will follow a growth trajectory that will ultimately equal and surpass the baseline before converging. Property prices are determined by multiple factors with GDP growth featuring prominently. However, the relationship between GDP growth and property prices entails a lag.

The baseline scenario was updated for the 30 June 2023 reporting, considering available information and relevant developments until then, and is described next. Economic activity continued to recover strongly in 2022 driven by a steep recovery in the tourism sector after the steep contraction of 2020, and a strong growth in private consumption, despite an aggressive monetary contraction and steep increases in interest rates. Economic momentum is expected to continue in 2023 at a slower pace. Real GDP increased by 5.6% in 2022 and is projected to rise by 2.8% in 2023 according to the Ministry of Finance. Consumer price inflation averaged 8.1% in 2022 and is expected to decelerate to 3.8% in 2023 according to the European Commission's Spring forecasts. The unemployment rate will continue to drop steadily in the medium term. Property prices will continue to rise modestly in 2023 as domestic residential demand remains relatively strong.

6. Significant and other judgements, estimates and assumptions (continued)

6.2 Calculation of expected credit losses (continued)

The adverse scenario is consistent with assumptions for a global economic slowdown driven by the war in Ukraine, elevated inflation and continued tight monetary policies. The Cypriot economy relies on services, particularly on tourism, international business, and information services with an outward orientation. This makes the Cypriot economy more exposed than other economies to the international environment and terms of trade shocks. Weaker external demand and more restricted domestic demand as a result of higher interest rates will lead to a slow-down of economic activity. The adverse scenario assumes a deeper impact of these conditions on the real economy than under the baseline scenario. Real GDP is expected to contract modestly by 0.7% in 2023 with the recovery remaining weak in the medium term. In the labour market the unemployment rate will rise only modestly and inflation while elevated, will be lower than under the baseline scenario. House prices will also contract in line with the contraction in real GDP.

Since 1 January 2018, the Group has reassessed the key economic variables used in the ECL models consistent with the implementation of IFRS 9. The Group uses actual values for the input variables. These values are sourced from the Cyprus Statistical Service, the Eurostat, the Central Bank of Cyprus for the residential property price index, and the European Central Bank for interest rates. Interest rates are also sourced from Bloomberg. In the case of property prices, the Group additionally uses data from the Royal Institute of Chartered Surveyors. For the forward reference period, the Group uses the forecast values for the same variables, as prepared by the BOC PCL's Economic Research Department. The results of the internal forecast exercises are consistent with publicly available forecasts from official sources including the European Commission, the International Monetary Fund, the European Central Bank and the Ministry of Finance of the Republic of Cyprus.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted, if considered necessary, by the Risk Management Division, endorsed by the Group Provisions Committee and approved by the joint Risk and Audit Committee. Qualitative adjustments or overlays are described in the below sections as applicable.

For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios: base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional either more favourable or more adverse scenarios. Under the adverse scenario, operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario, whereas under the favourable scenario applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures.

For collectively assessed customers the calculation is also the weighted average of three scenarios: base, adverse and favourable.

Assessment of loss given default (LGD)
A factor for the estimation of loss given default (LGD) is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used as the basis to estimate updated market values of properties, supplemented by management judgement where necessary, given the difficulty in differentiating between short-term impacts and long-term structural changes and the shortage of market evidence for comparison purposes. Assumptions were made on the basis of a macroeconomic scenario for future changes in property prices and qualitative adjustments or overlays were applied to the projected future property value increases to restrict the level of future property price growth to 0% for all scenarios for loans and advances to customers which are secured by property collaterals.

At 30 June 2023, the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation for loans and advances to customers is approximately 32% under the baseline scenario (31 December 2022: approximately 32%).

6. Significant and other judgements, estimates and assumptions (continued)

6.2 Calculation of expected credit losses (continued)

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario (31 December 2022: average of seven years).

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. For specific cases judgement may also be exercised over staging during the individual assessment.

The above assumptions are also influenced by the ongoing regulatory dialogue the Group maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

Any changes in these assumptions or differences between assumptions made and actual results could result in significant changes in the estimated amount of expected credit losses of loans and advances to customers.

Expected lifetime of revolving facilities
The expected lifetime of revolving facilities is based on a behavioural maturity model for revolving facilities based on BOC PCL's available historical data, where an expected maturity for each revolving facility based on the customer's profile is assigned. The behavioural model was updated in the second quarter of 2022 to reflect updates in customers profile whilst maintaining the same model components.

Modelling adjustments
Forward looking models have been developed for ECL parameters PD, EAD, LGD for all portfolios and segments sharing similar characteristics. Model validation (initial and periodic) is performed by the independent validation unit within the Risk Management Division and involves assessment of a model under both quantitative (i.e. stability and performance) and qualitative terms. The frequency and level of rigour of model validation is commensurate to the overall use, complexity and materiality of the models, (i.e. risk tiering). In certain cases, judgement is exercised in the form of management overlay by applying adjustments on the modelled parameters. Governance of these models lies with the Risk Management Division, where a strong governance process is in place around the determination of the impairment measurement methodology including inputs, assumptions and overlays. Any management overlays are prepared by the Risk Management Division, endorsed by the Group Provisions Committee and approved by the joint Risk and Audit Committee.

ECL allowances also include allowances on off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the probability, timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated using the Credit Conversion Factor (CCF) model.

Overlays in the context of current economic conditions

The two overlays introduced in 2022 in response to uncertainties from the consequences of the Ukrainian crisis, in the collectively assessed population for exposures that were considered to be the most vulnerable to the implications of the crisis, continued to be in effect during the six months ended 30 June 2023. These were introduced to address the increased uncertainties from the geopolitical instability, trade restrictions, disruptions in the global supply chains, increases in the energy prices and their potential negative impact on the domestic cost of living. The impact on the ECL from the application of these overlays was approximately €3.7 million ECL release for the six months ended 30 June 2023 (following an update of the assessment of the sectors classified as High Risk and/or Early Warning) and a net transfer of €22 million loans from Stage 1 to Stage 2 as at 30 June 2023.

6. Significant and other judgements, estimates and assumptions (continued)

6.2 Calculation of expected credit losses (continued)

Specifically, the first overlay relates to private individuals that are expected to be affected by the increased cost of living in order to reflect the future vulnerabilities to inflation, where a scenario with higher percentage increase is applied for the cost of living. A one-notch downgrade is applied to the identified portfolio, reflecting the expected impact of inflation to their credit quality. The second overlay relates to sectors that have been classified as High Risk or Early Warning to reflect the expected Gross Value Added (GVA) outlook of these sectors, where this has deteriorated. Specifically, the sector risk classification is carried out by comparing the projected GVA outlook of each sector with its past performance (intrinsic) and its performance vis-a-vis other sectors (systemic). In cases where both systemic and intrinsic indicators are found to have deteriorated, the relevant sector is classified as High Risk, whereas if only one of the two has deteriorated, then the sector is classified as Early Warning. A one-notch downgrade is applied to Early Warning sectors whereas for High Risk sectors a more severe downgrade is applied accordingly.

In addition, the overlay on the probability of default (PD), introduced in the fourth quarter of 2022 to address specifically the high inflation environment affecting the economy, continued to be in effect during the six months ended 30 June 2023. With this overlay the PDs were floored to the maximum of 2018/2019 level, on the basis that these years are considered as closer to a business-as-usual environment in terms of default rates. The impact on the ECL from the application of this overlay was €3.9 million charge for the six months ended 30 June 2023, as a result of multiple components including updated ratings, PD and thresholds calibrations and stage migrations.

In addition, in the six months ended 30 June 2023, for the LGD parameter, the overlay has been integrated through reduced curability period for Stage 2 and Stage 3 exposures (i.e., the maximum period that a customer is considered to cure has been reduced). The impact on the ECL was €8.4 million charge for the six months ended 30 June 2023.

The Group has exercised critical judgement on a best effort basis, to consider all reasonable and supportable information available at the time of the assessment of the ECL allowance as at 30 June 2023. The Group will continue to evaluate the ECL allowance and the related economic outlook each quarter, so that any changes arising from the uncertainty on the macroeconomic outlook and geopolitical developments, impacted by the implications of the Russian invasion of Ukraine, are timely captured.

Portfolio segmentation
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed on a quarterly basis by the Risk Management Division and are adjusted or enhanced, if deemed necessary. The selection criteria were further enhanced in 2022 to include significant exposures to customers with passport of origin or residency in Russia, Ukraine or Belarus and/or business activity within these countries.

Further details on impairment allowances and related credit information are set out in Note 30.

6.3 Stock of property - estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined through valuation techniques, requiring significant judgement, taking into account all available reference points, such as expert valuation reports, current market conditions, the holding period of the asset, applying an appropriate illiquidity discount where considered necessary, and any other relevant parameters. Selling expenses are deducted from the realisable value. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a high degree of uncertainty due to the relatively low level of market activity.

More details on the stock of property are presented in Note 19.

6. Significant and other judgements, estimates and assumptions (continued)

6.4 Provisions for pending litigation, claims, regulatory and other matters

The accounting policy for provisions for pending litigation, claims, regulatory and other matters is described in Note 2.37 of the annual consolidated financial statements for the year ended 31 December 2022. Judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigation, claims, regulatory and other matters usually require a higher degree of judgement than other types of provisions. It is expected that the Group will continue to have a material exposure to litigation and regulatory proceedings and investigations relating to legacy issues in the medium term. The matters for which the Group determines that the probability of a future loss is more than remote will change from time to time, as will the matters as to which a reliable estimate can be made and the possible loss for such matters can be estimated. Actual results may prove to be significantly higher or lower than the estimated possible loss in those matters, where an estimate was made. In addition, loss may be incurred in matters with respect to which the Group believed the probability of loss was remote.

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 27.

7. Segmental analysis

The Group's activities are mainly concentrated in Cyprus. Cyprus operations are organised into operating segments based on the line of business. The results of the overseas activities of the Group, namely Greece, Romania and Russia, are presented within segment 'Other', given the size of these operations which are in a run-down mode and relate to legacy operations of the Group. Further, the results of certain small subsidiaries of the Group are allocated to the segments based on their key activities.

As from the fourth quarter of 2022, following an internal re-organisation, the Large Corporate and the International Corporate business lines, which were previously reported together as one business line namely Global Corporate, have been separated, and Large Corporate is presented and monitored together with Corporate, while International Corporate Banking, Project Finance & Loan Syndication and Shipping Center are presented and monitored under International Corporate. Comparative information in 'Analysis by business line' and 'Analysis of total revenue' were restated to account for this change, which was reflected in the annual consolidated financial statements for the year ended 31 December 2022. Comparative information in 'Analysis by business line' and 'Analysis of total revenue' was also restated to account for the retrospective application of IFRS 17 as described in Note 3.3.1.

The operating segments are analysed below:

i. The Corporate and Large Corporate, Small and Medium-sized Enterprises (SME) and Retail business lines are managing loans and advances to customers. Categorisation of loans per customer group is detailed below.
ii. International Corporate comprises of International Corporate Banking, Project Finance & Loan Syndication and Shipping Center. International Corporate Banking provides financing from Cyprus in respect of projects based overseas with main focus being Greece and the United Kingdom. Project Finance & Loan Syndication act as arranger or participant in large international loan syndication transactions. Shipping Center provides shipping financing primarily for ocean-going cargo vessels.
iii. Restructuring and Recoveries is the specialised unit which was set up to tackle the Group's loan portfolio quality and manages exposures to borrowers in distress situation through innovative solutions.
iv. International Business Unit (IBU) specialises in the offering of banking services to the international corporate customers based in Cyprus, particularly international business companies whose ownership and business activities lie outside Cyprus, and non-resident individual customers of BOC PCL.
v. Wealth Management oversees the provision of private banking and wealth management, market execution and custody along with asset management and investment banking. This business line also includes subsidiary companies of the Group, whose activities relate to investment banking and brokerage, investment holding and management, administration and safekeeping of UCITS units.
vi. The Real Estate Management Unit (REMU) manages properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, and executes exit strategies in order to monetise these assets. REMU also includes other subsidiary property companies of the Group.
vii. Treasury is responsible for liquidity management and for overseeing operations to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability.
viii. The Insurance business line is involved in both life and non-life insurance business.

7. Segmental analysis (continued)

ix. The business line 'Other' includes central functions of BOC PCL such as finance, risk management, compliance, legal, Information Technology services, corporate affairs and human resources. These functions provide services to the operating segments. 'Other' includes also other subsidiary companies in Cyprus (excluding the insurance subsidiaries, property companies under REMU and subsidiary companies under Wealth), as well as the overseas activities of the Group.

BOC PCL broadly categorises its loans per customer group, using the following customer sectors:

i. Retail – all physical person customers, regardless of the facility amount, and legal entities with facilities from BOC PCL of up to €500 thousand, excluding business property loans and/or annual credit turnover up to €1 million.
ii. SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities from BOC PCL in the range of €500 thousand to €4 million and/or annual credit turnover of €1 million up to €10 million.
iii. Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with BOC PCL of over €4 million and/or having a minimum annual credit turnover of over €10 million. These companies are either local larger corporations or international companies or companies in the shipping sector. Lending includes direct lending or through syndications.

Management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis.

Operating segment disclosures are provided as presented to the Group Executive Committee.

Income and expenses associated with each business line are included for determining its performance. Transfer pricing methodologies are applied between the business lines to present their results on an arm's length basis. Income and expenses incurred directly by the business lines are allocated to the business lines as incurred. Indirect income and expenses are re-allocated from the central functions to the business lines. For the purposes of the Cyprus analysis by business line, notional tax at the 12.5% Cyprus tax rate is charged/credited to profit or loss before tax of each business line.

The loans and advances to customers, the customer deposits and the related income and expense are generally included in the segment where the business is managed, instead of the segment where the transaction is recorded.

7. Segmental analysis (continued)

Analysis by business line

	Corporate and Large corporate	International corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International business unit	Wealth management	REMU	Insurance	Treasury	Other	**Total**
Six months ended 30 June 2023	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Net interest income/(expense)	77,412	14,093	25,803	167,683	9,360	57,091	8,180	(19,315)	-	19,334	(1,299)	**358,342**
Net fee and commission income/(expense)	10,342	586	5,325	30,617	1,369	26,537	2,566	(75)	(4,332)	844	15,825	**89,604**
Net foreign exchange gains/(losses)	475	(5)	291	1,206	20	2,692	79	-	-	11,211	(130)	**15,839**
Net (losses)/gains on financial instruments	(9)	-	-	-	-	-	34	-	1,746	2,651	1,258	**5,680**
Net gains/(losses) on derecognition of financial assets measured at amortised cost	3,839	108	(924)	(314)	3,195	(65)	81	-	-	(41)	(18)	**5,861**
Net insurance result	-	-	-	-	-	-	-	-	24,509	-	52	**24,561**
Net gains/(losses) from revaluation and disposal of investment properties	-	-	-	-	-	-	-	889	-	-	(101)	**788**
Net gains on disposal of stock of property	-	-	-	-	-	-	-	3,704	-	-	202	**3,906**
Other income	10	-	8	84	64	2	83	3,937	5,121	12	2,879	**12,200**
Total operating income	92,069	14,782	30,503	199,276	14,008	86,257	11,023	(10,860)	27,044	34,011	18,668	**516,781**
Staff costs	(3,707)	(814)	(2,578)	(25,104)	(4,596)	(5,767)	(2,650)	(2,120)	(1,370)	(1,061)	(43,276)	**(93,043)**
Special levy on deposits and other levies/contributions	(1,756)	(132)	(908)	(11,064)	(32)	(3,762)	(582)	-	-	-	-	**(18,236)**
Provisions for pending litigations, regulatory and other provisions (net of reversals)	-	-	-	-	-	-	-	-	-	-	(14,148)	**(14,148)**
Other operating (expenses)/income (excluding advisory and other transformation costs)	(18,422)	(3,275)	(6,852)	(40,233)	(5,364)	(5,795)	(861)	(7,241)	(1,528)	(3,868)	25,240	**(68,199)**
Other operating expenses - advisory and other transformation costs	(467)	(96)	(214)	(778)	(203)	(212)	(32)	(182)	-	(73)	-	**(2,257)**
Operating profit before credit losses and impairment	67,717	10,465	19,951	122,097	3,813	70,721	6,898	(20,403)	24,146	29,009	(13,516)	**320,898**
Credit losses on financial assets	(3,795)	(284)	547	(8,473)	(18,185)	(35)	4	(6,131)	(112)	(375)	67	**(36,772)**
Impairment net of reversals on non-financial assets	-	-	-	-	-	-	-	(22,836)	-	-	(370)	**(23,206)**
Profit/(loss) before tax	63,922	10,181	20,498	113,624	(14,372)	70,686	6,902	(49,370)	24,034	28,634	(13,819)	**260,920**
Income tax	(7,990)	(1,273)	(2,562)	(14,203)	1,797	(8,836)	(886)	5,186	(1,962)	(3,579)	(5,460)	**(39,768)**
Profit/(loss) after tax	55,932	8,908	17,936	99,421	(12,575)	61,850	6,016	(44,184)	22,072	25,055	(19,279)	**221,152**
Non-controlling interests-profit	-	-	-	-	-	-	-	-	-	-	(905)	**(905)**
Profit/(loss) after tax attributable to the owners of the Company	**55,932**	**8,908**	**17,936**	**99,421**	**(12,575)**	**61,850**	**6,016**	**(44,184)**	**22,072**	**25,055**	**(20,184)**	**220,247**

7. **Segmental analysis** (continued)

Analysis by business line (continued)

	Corporate and Large corporate	International corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International business unit	Wealth management	REMU	Insurance	Treasury	Other	**Total**
Six months ended 30 June 2022 (restated)	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Net interest income/(expense)	49,572	9,629	14,495	43,703	16,294	10,234	578	(12,354)	-	13,573	(2)	**145,722**
Net fee and commission income/(expense)	11,157	771	5,587	29,562	4,252	27,928	2,569	(90)	(3,889)	1,003	14,789	**93,639**
Net foreign exchange gains	450	34	279	1,137	52	2,947	86	-	-	5,809	1,104	**11,898**
Net gains/(losses) on financial instruments	171	-	-	-	(2,230)	-	(102)	-	(9,737)	1,899	(184)	**(10,183)**
Net gains/(losses) on derecognition of financial assets measured at amortised cost	1,036	108	(20)	116	1,523	13	(269)	-	-	(867)	8	**1,648**
Net insurance result	-	-	-	-	-	-	-	-	23,724	-	-	**23,724**
Net losses from revaluation and disposal of investment properties	-	-	-	-	-	-	-	(415)	(307)	-	(650)	**(1,372)**
Net gains on disposal of stock of property	-	-	-	-	-	-	-	7,894	-	-	348	**8,242**
Other income	8	-	10	43	186	(3)	155	4,867	37	1	3,623	**8,927**
Total operating income	62,394	10,542	20,351	74,561	20,077	41,119	3,017	(98)	9,828	21,418	19,036	**282,245**
Staff costs	(3,413)	(661)	(2,902)	(30,007)	(5,677)	(6,240)	(1,825)	(2,055)	(1,337)	(1,108)	(43,078)	**(98,303)**
Special levy on deposits and other levies/contributions	(1,506)	(134)	(806)	(10,448)	(45)	(3,272)	(295)	-	-	(1)	-	**(16,507)**
Provisions for pending litigations, regulatory and other provisions (net of reversals)	-	-	-	-	-	-	-	-	-	-	(594)	**(594)**
Other operating (expenses)/income (excluding advisory and other transformation costs)	(16,951)	(3,081)	(7,652)	(39,183)	(11,197)	(5,055)	(1,170)	(8,215)	(1,588)	(5,142)	30,085	**(69,149)**
Other operating expenses - advisory and other transformation costs	-	-	-	-	(1,053)	-	-	(351)	-	-	(5,271)	**(6,675)**
Operating profit before credit losses and impairment	40,524	6,666	8,991	(5,077)	2,105	26,552	(273)	(10,719)	6,903	15,167	178	**91,017**
Credit losses on financial assets	(6,206)	219	569	293	(16,577)	285	(226)	(323)	38	(167)	(2,731)	**(24,826)**
Impairment net of reversals on non-financial assets	-	-	-	-	-	-	-	(7,203)	-	-	(4,954)	**(12,157)**
Profit/(loss) before tax	34,318	6,885	9,560	(4,784)	(14,472)	26,837	(499)	(18,245)	6,941	15,000	(7,507)	**54,034**
Income tax	(4,290)	(860)	(1,195)	598	1,809	(3,355)	3	2,429	(888)	(1,875)	(3,534)	**(11,158)**
Profit/(loss) after tax	30,028	6,025	8,365	(4,186)	(12,663)	23,482	(496)	(15,816)	6,053	13,125	(11,041)	**42,876**
Non-controlling interests-profit	-	-	-	-	-	-	-	-	-	-	(662)	**(662)**
Profit/(loss) after tax attributable to the owners of the Company	**30,028**	**6,025**	**8,365**	**(4,186)**	**(12,663)**	**23,482**	**(496)**	**(15,816)**	**6,053**	**13,125**	**(11,703)**	**42,214**

7. Segmental analysis (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, net foreign exchange gains, net gains/(losses) on financial instruments, net gains/(losses) on derecognition of financial assets measured at amortised cost, net insurance result, net gains/(losses) from revaluation and disposal of investment properties, net gains/(losses) on disposal of stock of property and other income. There was no revenue deriving from transactions with a single external customer that amounted to 10% or more of Group revenue.

	Corporate and Large corporate	International corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International business unit	Wealth management	REMU	Insurance	Treasury	Other	**Total**
Six months ended 30 June 2023	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Revenue from third parties	107,136	21,286	27,362	113,280	14,341	39,745	3,787	8,271	31,099	131,374	19,100	**516,781**
Inter-segment (expense)/revenue	(15,067)	(6,504)	3,141	85,996	(333)	46,512	7,236	(19,131)	(4,055)	(97,363)	(432)	**-**
Total revenue	**92,069**	**14,782**	**30,503**	**199,276**	**14,008**	**86,257**	**11,023**	**(10,860)**	**27,044**	**34,011**	**18,668**	**516,781**
Six months ended 30 June 2022 (restated)												
Revenue from third parties	70,241	12,505	21,749	77,546	21,454	37,163	3,275	12,102	14,463	(6,315)	18,062	**282,245**
Inter-segment (expense)/revenue	(7,847)	(1,963)	(1,398)	(2,985)	(1,377)	3,956	(258)	(12,200)	(4,635)	27,733	974	**-**
Total revenue	**62,394**	**10,542**	**20,351**	**74,561**	**20,077**	**41,119**	**3,017**	**(98)**	**9,828**	**21,418**	**19,036**	**282,245**

Analysis of assets and liabilities

	Corporate and Large corporate	International corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International business unit	Wealth management	REMU	Insurance	Treasury	Other	**Total**
30 June 2023	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Assets												
Assets	3,631,474	693,952	980,135	4,265,210	258,551	131,417	74,992	1,015,859	864,065	12,749,946	1,412,229	**26,077,830**
Inter-segment assets	-	-	-	-	-	-	(9,155)	(38,017)	(21,995)	-	(36,506)	**(105,673)**
	3,631,474	**693,952**	**980,135**	**4,265,210**	**258,551**	**131,417**	**65,837**	**977,842**	**842,070**	**12,749,946**	**1,375,723**	**25,972,157**
Assets between Cyprus and overseas operations												**(265,520)**
Total assets												**25,706,637**

7. Segmental analysis (continued)

Analysis of assets and liabilities (continued)

31 December 2022 (restated)	Corporate and Large corporate	International corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International business unit	Wealth management	REMU	Insurance	Treasury	Other	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Assets												
Assets	3,556,475	684,696	1,020,727	4,193,741	313,657	137,399	72,438	1,115,788	852,892	12,291,132	1,408,357	**25,647,302**
Inter-segment assets	-	-	-	-	-	-	(9,313)	(35,214)	(18,807)	-	(25,938)	**(89,272)**
	3,556,475	**684,696**	**1,020,727**	**4,193,741**	**313,657**	**137,399**	**63,125**	**1,080,574**	**834,085**	**12,291,132**	**1,382,419**	**25,558,030**
Assets between Cyprus and overseas operations												**(269,489)**
Total assets												**25,288,541**

30 June 2023	Corporate and Large corporate	International corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International business unit	Wealth management	REMU	Insurance	Treasury	Other	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Liabilities												
Liabilities	1,964,893	131,044	962,581	11,667,105	34,989	3,848,653	575,888	16,335	735,553	3,178,231	720,496	**23,835,768**
Inter-segment liabilities	-	-	-	-	-	-	-	-	-	(105,673)	-	**(105,673)**
	1,964,893	**131,044**	**962,581**	**11,667,105**	**34,989**	**3,848,653**	**575,888**	**16,335**	**735,553**	**3,072,558**	**720,496**	**23,730,095**
Liabilities between Cyprus and overseas operations												**(266,645)**
Total liabilities												**23,463,450**
31 December 2022 (restated)												
Liabilities												
Liabilities	1,915,300	139,898	1,007,555	11,333,783	33,806	3,957,050	628,578	10,049	690,757	3,183,550	699,535	**23,599,861**
Inter-segment liabilities	-	-	-	-	-	-	-	-	-	(89,272)	-	**(89,272)**
	1,915,300	**139,898**	**1,007,555**	**11,333,783**	**33,806**	**3,957,050**	**628,578**	**10,049**	**690,757**	**3,094,278**	**699,535**	**23,510,589**
Liabilities between Cyprus and overseas operations												**(270,614)**
Liabilities												**23,239,975**

Segmental analysis of customer deposits and loans and advances to customers is presented in Note 22 and Notes 30.2 and 30.4 respectively.

7. **Segmental analysis** (continued)

Analysis of turnover

	Six months ended 30 June	
	2023	2022
	€000	€000
Interest income and income similar to interest income	**426,024**	190,988
Fees and commission income	**93,879**	98,086
Net foreign exchange gains	**15,839**	11,898
Gross insurance premiums	**116,773**	105,591
Losses of investment properties and stock of properties	**(18,512)**	(494)
Other income	**12,200**	8,927
	646,203	414,996

The analysis of 'Losses of investment properties and stock of properties' is provided in the table below:

	Six months ended 30 June	
	2023	2022
	€000	€000
Net gains/(losses) from revaluation and disposal of investment properties	**788**	(1,372)
Net gains on disposal of stock of property	**3,906**	8,242
Impairment of stock of property (Note 12)	**(23,206)**	(7,364)
	(18,512)	(494)

8. **Interest income and income similar to interest income**

Interest income

	Six months ended 30 June	
	2023	2022
	€000	€000
Financial assets at amortised cost:		
- Loans and advances to customers	**237,519**	152,151
- Loans and advances to banks and central banks	**132,500**	1,446
- Debt securities	**20,742**	3,781
- Other financial assets (Note 20)	**9,098**	4,314
Debt securities at FVOCI	**3,993**	4,986
Negative interest on funding from central banks	**-**	14,792
	403,852	181,470

Income similar to interest income

	Six months ended 30 June	
	2023	2022
	€000	€000
Loans and advances to customers measured at FVPL	**6,263**	5,999
Derivative financial instruments	**15,909**	3,519
	22,172	9,518

9. Interest expense and expense similar to interest expense

Interest expense

	Six months ended 30 June	
	2023	2022 (restated)
Financial liabilities at amortised cost:	**€000**	€000
- Customer deposits	**10,671**	2,363
- Funding from central banks and deposits by banks	**31,301**	783
- Debt securities in issue	**3,878**	3,843
- Subordinated liabilities	**10,078**	10,415
Negative interest on loans and advances to banks and balances with central banks	**-**	20,104
Interest expense on lease liabilities	**155**	6
	56,083	37,514

Expense similar to interest expense

	Six months ended 30 June	
	2023	2022
	€000	€000
Derivative financial instruments	**11,599**	7,752

10. Net gains/(losses) on financial instruments

	Six months ended 30 June	
	2023	2022 (restated)
	€000	€000
Trading portfolio:		
- derivative financial instruments	**16**	37
Other investments at FVPL:		
- debt securities	**980**	(367)
- mutual funds	**1,780**	(9,839)
- equity securities	**1,962**	(166)
Net losses on disposal of FVOCI debt securities	**(433)**	(1,959)
Net losses on loans and advances to customers at FVPL	**(9)**	(2,059)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	**(8,843)**	49,687
- hedged items	**10,227**	(45,517)
	5,680	(10,183)

11. Staff costs and other operating expenses

Staff costs

	Six months ended 30 June	
	2023	2022 (restated)
	€000	€000
Salaries	**69,571**	77,324
Employer's contributions to state social insurance	**11,355**	12,411
Variable compensation	**3,761**	
of which: accrual for non-deferred cash award	***3,450***	-
of which: share-based benefits expense	***311***	-
Retirement benefit plan costs	**5,556**	5,438
Exit cost and other termination benefits (2022:Voluntary Exit Plan)	**2,800**	3,130
	93,043	98,303

During the six months ended 30 June 2023, an amount of €851 thousand (30 June 2022: €831 thousand) relating to staff costs has been capitalised as internally developed computer software.

The number of persons employed by the Group as at 30 June 2023 was 2,902 (31 December 2022: 2,889 and 30 June 2022: 3,422). In July 2022, the Group completed a VEP through which 559 of the Group's full-time employees were approved to leave at a total cost of €101,195 thousand.

In January 2022, the Group's subsidiary company, JCC Payment Systems Ltd, proceeded with a VEP for its employees, through which 15 employees were approved to leave at a total cost of €3,130 thousand.

Share-based benefits expense represents the cost for the period in relation to the Long-Term Incentive Plan established in 2022, under which annual LTIP awards may be granted, and which provides for an award in the form of ordinary shares of the Company based on certain non-market performance (driven by both delivery of the Group's Strategy as well as individual performance) and service vesting conditions. The eligible participants are the members of the Extended Executive Committee of the Group.

Non-deferred cash award refers to a Short-Term Incentive Plan established by the Group in 2023. This involves variable remuneration in the form of cash to selected employees, and will be driven by both delivery of the Group's Strategy, as well as individual performance.

11. Staff costs and other operating expenses (continued)

Other operating expenses

	Six months ended 30 June	
	2023	2022 (restated)
	€000	€000
Repairs and maintenance expenses	**16,263**	17,420
Other property-related costs	**5,058**	5,518
Consultancy, legal and other professional services fees	**8,224**	8,220
Insurance	**4,203**	4,197
Advertising and marketing	**2,646**	3,458
Depreciation of property and equipment	**6,660**	6,930
Amortisation of intangible assets	**7,974**	7,806
Communication expenses	**3,010**	3,374
Printing and stationery	**794**	869
Cash transfer expenses	**1,417**	1,630
Other operating expenses	**11,950**	9,727
	68,199	69,149
Advisory and other transformation costs	**2,257**	6,675
	70,456	75,824

Advisory and other transformation costs comprise mainly fees to external advisors in relation to the transformation program and other strategic projects of the Group.

During the six months ended 30 June 2023, the Group recognised €39 thousand relating to rent expense for short term leases, included within 'Other property-related costs' (30 June 2022: €84 thousand) and €2,752 thousand (30 June 2022: €2,823 thousand) relating to the depreciation of right-of-use assets (RoU assets), included within 'Depreciation of property and equipment'. In addition, depreciation of RoU assets of €492 thousand (30 June 2022: €600 thousand) and depreciation of property and equipment and amortisation of intangible assets of €1,775 thousand (30 June 2022: €1,572 thousand) are included within 'Net insurance service result', as these relate to directly attributable expenses of insurance services.

'Special levy on deposits and other levies/contributions' as presented in the interim consolidated income statement are analysed as per below:

	Six months ended 30 June	
	2023	2022
	€000	€000
Special levy on deposits of credit institutions in Cyprus	**8,816**	7,467
Single Resolution Fund contribution	**5,477**	5,779
Contribution to Deposit Guarantee Fund	**3,943**	3,261
	18,236	16,507

The special levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0.0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, reduces the payment of the Special Levy up to the level of the total annual Special Levy charge.

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

12. Credit losses on financial assets and impairment net of reversals of non-financial assets

	Six months ended 30 June	
	2023	2022 (restated)
Credit losses on financial instruments	**€000**	€000
Credit losses to cover credit risk on loans and advances to customers		
Impairment net of reversals on loans and advances to customers (Note 30.4)	**38,514**	28,055
Recoveries of loans and advances to customers previously written off	**(8,376)**	(6,509)
Changes in expected cash flows	**(426)**	2,840
Financial guarantees and commitments	**578**	(427)
	30,290	23,959
Credit losses of other financial instruments		
Amortised cost debt securities	**120**	21
FVOCI debt securities	**18**	163
Loans and advances to banks	**(181)**	(22)
Balances with central banks	**415**	-
Other financial assets (Note 20)	**6,110**	705
	6,482	867
	36,772	24,826

	Six months ended 30 June	
	2023	2022
Impairment net of reversals of non-financial assets	**€000**	€000
Stock of property (Note 19)	**23,206**	7,364
Other non-financial assets	**-**	4,793
	23,206	12,157

13. Income tax

	Six months ended 30 June	
	2023	2022 (restated)
	€000	€000
Current tax:		
- Cyprus	**39,473**	11,084
- Overseas	**-**	34
Cyprus special defence contribution	**30**	37
Deferred tax (credit)/charge	**(9)**	41
Prior years' tax adjustments	**(11)**	(16)
Other tax charges	**285**	(22)
	39,768	11,158

In addition to the amount of income tax presented in the respective caption in the consolidated income statement, an amount of €1,070 thousand (30 June 2022: €955 thousand) relates to tax expense presented within the net insurance service result as it is treated as directly attributable expense of the insurance operations of the Group.

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2022: 12.5%). The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2023 were: Greece 22% (2022: 22%), Romania 16% (2022: 16%) and Russia 20% (2022: 20%).

13. **Income tax** (continued)

On 22 December 2022, the European Commission approved Directive 2022/2523 which provides for a minimum effective tax rate of 15% for the global activities of large multinational groups. The Directive that follows closely the OECD Inclusive Framework on Base Erosion and Profit Shifting should be transposed by the Member States throughout 2023, entering into force on 1 January 2024. The legislation has not been substantively enacted at the balance sheet date and the Group will continue to monitor the evolving national legislation including any disclosures required, or exemptions available, under IAS 12 in the year ending 31 December 2023.

Deferred tax

The net deferred tax assets comprise:

	30 June 2023	31 December 2022 (restated)
	€000	€000
Deferred tax assets	**227,953**	227,934
Deferred tax liabilities	**(34,618)**	(34,634)
Net deferred tax assets	**193,335**	193,300

The deferred tax assets (DTA) relate to Cyprus operations.

The movement of the net deferred tax assets is set out below:

	30 June 2023	31 December 2022 (restated)
	€000	€000
1 January (restated)	**193,300**	226,125
Deferred tax recognised in the consolidated income statement - tax credit	**9**	4,840
Deferred tax recognised in the consolidated statement of comprehensive income	**26**	244
Transfer to current tax receivables following conversion into tax credit	**-**	(37,909)
30 June/31 December	**193,335**	193,300

13. Income tax (continued)

The Group offsets income tax assets and liabilities only if it has a legally enforceable right to set-off current income tax assets and current income tax liabilities.

Income Tax Law Amendment 28 (I) of 2019
On 1 March 2019 the Cyprus Parliament adopted legislative amendments to the Income Tax Law (the 'Law') which were published in the Official Gazette of the Republic on 15 March 2019 ('the amendments').

BOC PCL has DTA that meets the requirements of the Income Tax Law Amendment 28(I) of 2019 relating to income tax losses transferred to BOC PCL as a result of the acquisition of certain operations of Laiki Bank, on 29 March 2013, under 'The Resolution of Credit and Other Institutions Law'. The DTA recognised upon the acquisition of certain operations of Laiki in 2013 amounted to €417 million (corresponding to €3.3 billion tax losses) for which BOC PCL paid a consideration as part of the respective acquisition. The period of utilisation of the tax losses which may be converted into tax credits is eleven years following the amendment of the Law in 2019, starting from 2018 i.e. by end of 2028.

As a result of the above Law, the Group has DTA amounting to €227,455 thousand as at 30 June 2023 (31 December 2022: €227,455 thousand) that meet the requirements under this Law, the recovery of which is guaranteed. On an annual basis an amount is converted to annual tax credit and is reclassified from the DTA to current tax receivables.

The DTA subject to the Law is accounted for on the same basis as described in Note 2.13 of the annual consolidated financial statements for the year ended 31 December 2022.

Accumulated income tax losses

The accumulated income tax losses are presented in the table below:

	Total income tax losses	Income tax losses for which a deferred tax asset was recognised	Income tax losses for which no deferred tax asset was recognised
30 June 2023	**€000**	**€000**	**€000**
Expiring within 5 years	**44,960**	**-**	**44,960**
Utilisation in annual instalments up to 2028	**1,819,636**	**1,819,636**	**-**
	1,864,596	**1,819,636**	**44,960**
31 December 2022			
Expiring within 5 years	44,960	-	44,960
Utilisation in annual instalments up to 2028	1,819,636	1,819,636	-
	1,864,596	1,819,636	44,960

14. Earnings per share

Basic earnings per share

	Six months ended 30 June	
Basic profit per share attributable to the owners of the Company	**2023**	2022 (restated)
	€000	€000
Profit for the period attributable to the owners of the Company (€ thousand) (basic)	**220,247**	42,214
Weighted average number of shares in issue during the period, excluding treasury shares (€ thousand)	**446,058**	446,058
Basic profit per share (€ cent)	**49.4**	9.5

14. Earnings per share (continued)

Diluted earnings per share

Diluted profit per share attributable to the owners of the Company	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Profit for the period attributable to the owners of the Company (€ thousand)	**220,247**	42,214
Weighted average number of shares in issue during the period, excluding treasury shares adjusted for the dilutive effect of all rights on shares (€ thousand)	**446,755**	446,058
Diluted profit per share (€ cent)	**49.3**	9.5

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted for the dilutive effect of ordinary shares that may arise in respect of share awards granted to executive directors and senior management of the Group under the Long-Term Incentive Plan (2022 LTIP).

15. Investments

The analysis of the Group's investments is presented in the table below:

	30 June 2023	31 December 2022
	€000	€000
Investments at FVPL	**138,661**	190,209
Investments at FVOCI	**487,806**	467,375
Investments at amortised cost	**2,703,240**	2,046,119
	3,329,707	2,703,703

Out of these, the amounts pledged as collateral are shown below:

Investments pledged as collateral	**30 June 2023**	31 December 2022
	€000	€000
Investments at FVOCI	**24,585**	60,974
Investments at amortised cost	**232,562**	223,369
	257,147	284,343

Investments pledged as collateral as at 30 June 2023 and 31 December 2022 related to debt securities collaterised mainly for the additional amounts borrowed from the ECB Targeted Longer-Term Refinancing Operations (TLTRO III) (Note 21). Encumbered assets are disclosed in Note 32.

The maximum exposure to credit risk for debt securities is disclosed in Note 30.1.

The increase in the investment portfolio as at 30 June 2023 is consistent with the strategy of the Group to prudently grow the fixed income portfolio to reach approximately 15% of the Group's total assets. Further, part of the increase as at 30 June 2023 reflects incremental new investments during the second quarter of 2023, ahead of expected maturities in the second half of 2023.

15. Investments (continued)

Investments at fair value through profit or loss

	Investments mandatorily measured at FVPL	
	30 June 2023	31 December 2022
	€000	€000
Other non-equity securities	**3,364**	8,968
Equity securities	**4,870**	6,961
Mutual funds	**130,427**	174,280
	138,661	190,209

Investments at FVOCI

	30 June 2023	31 December 2022
	€000	€000
Debt securities	**474,887**	453,775
Equity securities (including preference shares)	**12,919**	13,600
	487,806	467,375

Investments at amortised cost

	30 June 2023	31 December 2022
	€000	€000
Debt securities	**2,703,240**	2,046,119

Further analysis of the Group's investments is provided in the tables below.

Equity securities

Equity securities	FVPL	FVOCI	Total
30 June 2023	€000	€000	**€000**
Listed on the Cyprus Stock Exchange	-	1,280	**1,280**
Listed on other stock exchanges	4,870	61	**4,931**
Unlisted	-	11,578	**11,578**
	4,870	**12,919**	**17,789**

	FVPL	FVOCI	Total
31 December 2022	€000	€000	**€000**
Listed on the Cyprus Stock Exchange	-	1,335	**1,335**
Listed on other stock exchanges	6,961	68	**7,029**
Unlisted	-	12,197	**12,197**
	6,961	**13,600**	**20,561**

The Group irrevocably made the election to classify its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value amounts to €12,919 thousand at 30 June 2023 and is equal to their fair value (31 December 2022: €13,600 thousand).

Equity investments at FVOCI comprise mainly investments in private Cyprus registered companies, acquired through loan restructuring activity and specifically through debt for equity swaps.

Dividend income amounting to €439 thousand has been received and recognised during the six months ended 30 June 2023 in other income (30 June 2022: €368 thousand).

15. Investments (continued)

During the six months ended 30 June 2023 and the year ended 31 December 2022 no material equity investments measured at FVOCI have been disposed off.

Mutual funds

Mutual funds	**FVPL**
30 June 2023	€000
Listed on other stock exchanges	37,958
Unlisted	92,469
	130,427

	FVPL
31 December 2022	€000
Listed on other stock exchanges	77,782
Unlisted	96,498
	174,280

The majority of the unlisted mutual funds relate to investments whose underlying assets are listed on stock exchanges and are therefore presented in Level 2 hierarchy in Note 17.

Debt securities and other non-equity securities

Analysis by issuer type	**FVPL**	**FVOCI**	**Amortised cost**	**Total**
30 June 2023	€000	€000	€000	**€000**
Cyprus government	-	343,459	615,978	**959,437**
Other governments	-	10,008	546,796	**556,804**
Financial institutions	-	97,754	1,013,598	**1,111,352**
Other financial corporations	3,364	-	41,645	**45,009**
Supranational organisations	-	18,819	387,633	**406,452**
Other non-financial corporations	-	4,847	97,590	**102,437**
	3,364	**474,887**	**2,703,240**	**3,181,491**

	FVPL	**FVOCI**	**Amortised cost**	**Total**
31 December 2022	€000	€000	€000	**€000**
Cyprus government	-	310,791	521,322	832,113
Other governments	-	22,616	402,844	425,460
Financial institutions	-	115,497	722,522	838,019
Other financial corporations	8,968	-	36,547	45,515
Supranational organisations	-	-	293,834	293,834
Other non-financial corporations	-	4,871	69,050	73,921
	8,968	**453,775**	**2,046,119**	**2,508,862**

15. Investments (continued)

Geographic dispersion by country of issuer	FVPL	FVOCI	Amortised cost	Total
30 June 2023	€000	€000	€000	**€000**
Cyprus	-	343,459	626,805	**970,264**
Greece	-	18,422	41,649	**60,071**
Germany	-	-	176,649	**176,649**
France	-	44,632	247,792	**292,424**
Other European Union countries	-	19,655	549,240	**568,895**
United Kingdom	-	-	23,234	**23,234**
USA and Canada	3,364	9,029	267,283	**279,676**
Other countries	-	20,871	382,955	**403,826**
Supranational organisations	-	18,819	387,633	**406,452**
	3,364	**474,887**	**2,703,240**	**3,181,491**

	FVPL	FVOCI	Amortised cost	Total
31 December 2022	€000	€000	€000	**€000**
Cyprus	-	310,791	531,611	842,402
Greece	-	14,987	43,276	58,263
Germany	-	-	121,132	121,132
France	-	58,134	162,405	220,539
Other European Union countries	-	33,298	370,728	404,026
United Kingdom	-	-	23,128	23,128
USA and Canada	8,968	8,974	238,802	256,744
Other countries	-	27,591	261,203	288,794
Supranational organisations	-	-	293,834	293,834
	8,968	**453,775**	**2,046,119**	**2,508,862**

Listing analysis	FVPL	FVOCI	Amortised cost	Total
30 June 2023	€000	€000	€000	**€000**
Listed on the Cyprus Stock Exchange	-	-	25,984	**25,984**
Listed on other stock exchanges	-	474,887	2,677,256	**3,152,143**
Unlisted	3,364	-	-	**3,364**
	3,364	**474,887**	**2,703,240**	**3,181,491**

	FVPL	FVOCI	Amortised cost	Total
31 December 2022	€000	€000	€000	**€000**
Listed on the Cyprus Stock Exchange	-	-	29,849	**29,849**
Listed on other stock exchanges	-	453,775	2,016,270	**2,470,045**
Unlisted	8,968	-	-	**8,968**
	8,968	**453,775**	**2,046,119**	**2,508,862**

There were no reclassifications of investments during the six months ended 30 June 2023 and the year ended 31 December 2022.

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €7,631 thousand at 30 June 2023 (31 December 2022: €8,694 thousand). The fair value gain that would have been recognised in the consolidated income statement during the six months ended 30 June 2023 if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €100 thousand (30 June 2022: loss of €1,018 thousand). The effective interest rate of these instruments is 1.6%-5.0% (2022: 1.6%-5.0%) per annum and the respective interest income during the six months ended 30 June 2023 amounts to €105 thousand (30 June 2022: €128 thousand).

16. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	30 June 2023			31 December 2022		
		Fair value			Fair value	
	Contract amount	**Assets**	**Liabilities**	Contract amount	Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**22,489**	**204**	**124**	13,239	103	123
Currency swaps	**1,067,461**	**4,890**	**3,615**	1,248,522	283	10,316
Interest rate swaps	**14,244**	**360**	**347**	14,806	437	420
Currency options	**125**	**123**	**2**	352	287	65
Interest rate caps/floors	**169,248**	**3,699**	**3,699**	171,864	3,094	3,094
	1,273,567	**9,276**	**7,787**	1,448,783	4,204	14,018
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**1,093,731**	**40,024**	**10,604**	803,513	43,939	2,151
Net investments - forward exchange rate contracts and currency swaps	**3,288**	**2**	**-**	3,059	10	-
	1,097,019	**40,026**	**10,604**	806,572	43,949	2,151
Total	**2,370,586**	**49,302**	**18,391**	2,255,355	48,153	16,169

Hedge accounting

The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates, foreign currency exchange rates or other risks) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the consolidated income statement.

Fair value hedges
The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate debt securities measured at FVOCI.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

Hedges of net investments
The Group's consolidated balance sheet is impacted by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and other foreign operations. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and other foreign operations and by forward exchange rate contracts.

As at 30 June 2023, forward exchange rate contracts amounting to €3,288 thousand (30 June 2022: forward exchange rate contracts amounting to €2,874 thousand) have been designated as hedging instruments and have given rise to a loss of €3 thousand (30 June 2022: loss of €4,079 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and other foreign operations.

16. Derivative financial instruments (continued)

Interest rate benchmark reform
As at 30 June 2023 the interest rate benchmarks to which BOC PCL's hedge relationships are exposed to, are Euro Interbank Offered Rate (Euribor) (31 December 2022: Euribor and USD London Interbank Offered Rate (Libor)) in relation to the cash flows of the hedging instruments. The Group has applied judgement in relation to market expectations regarding hedging instruments.

The table below indicates the nominal amount of derivatives in hedging relationships analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure BOC PCL manages through hedging relationships.

Interest Rate Swaps	**30 June 2023 €000**	31 December 2022 €000
Euribor (3-month)	**1,093,731**	770,731
Libor USD (3-month)	**-**	32,782
Total	**1,093,731**	803,513

Euribor is in compliance with EU Benchmarks Regulation (BMR) and the Group does not consider that Euribor-based derivatives are affected by the BMR Reform.

As at 30 June 2023, the Group's assessment regarding the on going transition to the new risk free rates (RFRs) indicates that the impact on the hedging relationships and in value terms is not significant. Further details in relation to interest rate benchmark reform are disclosed in Note 31.

17. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	30 June 2023		31 December 2022 (restated)	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**€000**	**€000**	€000	€000
Cash and balances with central banks	**9,127,429**	**9,127,429**	9,567,258	9,567,258
Loans and advances to banks	**431,812**	**419,210**	204,811	193,349
Investments at FVPL	**138,661**	**138,661**	190,209	190,209
Investments at FVOCI	**487,806**	**487,806**	467,375	467,375
Investments at amortised cost	**2,703,240**	**2,619,189**	2,046,119	1,953,336
Derivative financial assets	**49,302**	**49,302**	48,153	48,153
Loans and advances to customers	**10,007,819**	**10,038,152**	9,953,252	10,011,741
Life insurance business assets attributable to policyholders	**576,272**	**576,272**	531,061	531,061
Other financial assets	**423,334**	**462,915**	402,462	456,402
	23,945,675	**23,918,936**	23,410,700	23,418,884
Financial liabilities				
Funding from central banks and deposits by banks	**2,453,193**	**2,401,740**	2,484,332	2,399,266
Derivative financial liabilities	**18,391**	**18,391**	16,169	16,169
Customer deposits	**19,166,155**	**19,124,073**	18,998,319	18,963,934
Debt securities in issue	**291,976**	**264,738**	297,636	254,179
Subordinated liabilities	**309,348**	**295,475**	302,104	265,472
Other financial liabilities and lease liabilities	**254,690**	**254,690**	250,352	250,352
	22,493,753	**22,359,107**	22,348,912	22,149,372

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

17. Fair value measurement (continued)

The Group uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant impact on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant impact on fair value are not based on market observable data.

For assets and liabilities that are recognised in the Consolidated Financial Statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)
The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and BOC PCL's own credit quality respectively.

The Group calculates the CVA by applying the PD of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying BOC PCL's PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Group and multiplying the result by the loss expected in the event of default.

The expected exposure of derivatives is calculated as per the CRR and takes into account the netting agreements where they exist. A standard Loss Given Default (LGD) assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments at FVPL, investments at FVOCI and investments at amortised cost
Investments which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. The rest of the investments are valued using quoted prices in active markets.

Loans and advances to customers
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the risk-free rate per currency, funding cost, servicing cost and the cost of capital, considering the risk weight of each loan. The discount rate used in the determination of the fair value of the loans and advances to customers measured at FVPL during the six months ended 30 June 2023 ranges from 6.35% to 6.82% (31 December 2022: 2.66%-4.86%).

17. Fair value measurement (continued)

Customer deposits
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of BOC PCL. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

Loans and advances to banks
Loans and advances to banks with maturity over one year are discounted using an appropriate risk-free rate plus the appropriate credit spread. For short-term lending, the fair value is approximated by the carrying value.

Deposits by banks and funding from central banks
Deposits by banks and funding from central banks with maturity over one year are discounted using an appropriate risk-free rate plus the appropriate credit spread. For short-term funding, the fair value is approximated by the carrying value.

Debt securities in issue and Subordinated liabilities
Debt securities and subordinated liabilities issuances are traded in an active market with quoted prices.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The following table presents the fair value measurement hierarchy of the Group's financial assets and financial liabilities recorded at fair value and financial assets and financial liabilities for which fair value is disclosed, by level of the fair value hierarchy:

30 June 2023	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Financial assets measured at fair value				
Loans and advances to customers measured at FVPL	-	-	210,385	**210,385**
Trading derivatives				
Forward exchange rate contracts	-	204	-	**204**
Currency swaps	-	4,890	-	**4,890**
Interest rate swaps	-	360	-	**360**
Currency options	-	123	-	**123**
Interest rate caps/floors	-	3,699	-	**3,699**
	-	9,276	-	**9,276**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	40,024	-	**40,024**
Net investments-forward exchange rate contracts and currency swaps	-	2	-	**2**
	-	40,026	-	**40,026**
Investments at FVPL	42,828	92,469	3,364	**138,661**
Investments at FVOCI	476,228	-	11,578	**487,806**
	519,056	**141,771**	**225,327**	**886,154**
Other financial assets not measured at fair value				
Loans and advances to banks	-	419,210	-	**419,210**
Investments at amortised cost	2,434,498	175,535	9,156	**2,619,189**
Loans and advances to customers	-	-	9,827,767	**9,827,767**
	2,434,498	**594,745**	**9,836,923**	**12,866,166**

17. Fair value measurement (continued)

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €3,637 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €1,888 thousand in their fair value.

For one investment included in other non-equity securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 with a carrying amount of €3,364 thousand as at 30 June 2023, a change in the conversion factor by 10% would result in a change in the value of the other non-equity securities by €336 thousand.

30 June 2023	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Financial liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	124	-	**124**
Currency swaps	-	3,615	-	**3,615**
Interest rate swaps	-	347	-	**347**
Currency options	-	2	-	**2**
Interest rate caps/floors	-	3,699	-	**3,699**
	-	7,787	-	**7,787**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	10,604	-	**10,604**
	-	10,604	-	**10,604**
	-	**18,391**	**-**	**18,391**
Other financial liabilities not measured at fair value				
Funding from central banks	-	1,996,982	-	**1,996,982**
Deposits by banks	-	404,758	-	**404,758**
Customer deposits	-	-	19,124,073	**19,124,073**
Debt securities in issue	264,738	-	-	**264,738**
Subordinated liabilities	295,475	-	-	**295,475**
	560,213	**2,401,740**	**19,124,073**	**22,086,026**

17. Fair value measurement (continued)

31 December 2022	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Financial assets measured at fair value				
Loans and advances to customers measured at FVPL	-	-	214,359	**214,359**
Trading derivatives				
Forward exchange rate contracts	-	103	-	**103**
Currency swaps	-	283	-	**283**
Interest rate swaps	-	437	-	**437**
Currency options	-	287	-	**287**
Interest rate caps/floors	-	3,094	-	**3,094**
	-	4,204	-	**4,204**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	43,939	-	**43,939**
Net investments-forward exchange rate contacts and currency swaps	-	10	-	**10**
	-	43,949	-	**43,949**
Investments at FVPL	84,743	96,498	8,968	**190,209**
Investments at FVOCI	455,110	-	12,265	**467,375**
	539,853	**144,651**	**235,592**	**920,096**
Other financial assets not measured at fair value				
Loans and advances to banks	-	193,349	-	**193,349**
Investments at amortised cost	1,871,757	69,300	12,279	**1,953,336**
Loans and advances to customers	-	-	9,797,382	**9,797,382**
	1,871,757	**262,649**	**9,809,661**	**11,944,067**

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €4,538 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €1,145 thousand in their fair value.

For one investment included in other non-equity securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 with a carrying amount of €8,968 thousand as at 31 December 2022, a change in the conversion factor by 10% would result in a change in the value of the other non-equity securities by €897 thousand.

17. Fair value measurement (continued)

31 December 2022	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Financial liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	123	-	**123**
Currency swaps	-	10,316	-	**10,316**
Interest rate swaps	-	420	-	**420**
Currency options	-	65	-	**65**
Interest rate caps/floors	-	3,094	-	**3,094**
	-	14,018	-	**14,018**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	2,151	-	**2,151**
	-	2,151	-	**2,151**
	-	**16,169**	**-**	**16,169**
Other financial liabilities not measured at fair value				
Funding from central banks	-	1,944,145	-	**1,944,145**
Deposits by banks	-	455,121	-	**455,121**
Customer deposits	-	-	18,963,934	**18,963,934**
Debt securities in issue	254,179	-	-	**254,179**
Subordinated liabilities	265,472	**-**	**-**	**265,472**
	519,651	**2,399,266**	**18,963,934**	**21,882,851**

The cash and balances with central banks are financial instruments whose carrying value is a reasonable approximation of fair value because they are mostly short-term in nature or are repriced to current market rates frequently. The carrying value of other financial assets, other than the deferred purchase payment consideration (Note 20), and other financial liabilities is a close approximation of their fair value and they are categorised as Level 3.

During the six months ended 30 June 2023 and the year ended 31 December 2022 there were no significant transfers between Level 1 and Level 2.

Movements in Level 3 assets measured at fair value
Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Group requires significant unobservable inputs to calculate their fair value.

17. Fair value measurement (continued)

The movement in Level 3 financial assets which are measured at fair value is presented below:

	30 June 2023			31 December 2022		
	Loans and advances to customers	**Financial instruments**	**Total**	Loans and advances to customers	Financial instruments	Total
	€000	**€000**	**€000**	€000	€000	€000
1 January	**214,359**	**21,233**	**235,592**	281,868	19,897	301,765
Additions	**-**	**-**	**-**	-	10,054	10,054
Disposals	**-**	**-**	**-**	-	(500)	(500)
Conversion of instruments into common shares	**-**	**(6,521)**	**(6,521)**	-	(4,102)	(4,102)
Fair value gains/(losses)	**-**	**293**	**293**	-	(4,133)	(4,133)
Net (losses)/gains on loans and advances to customers measured at FVPL (Note 10)	**(9)**	**-**	**(9)**	4,050	-	4,050
Derecognition/repayment of loans	**(10,228)**	**-**	**(10,228)**	(82,522)	-	(82,522)
Interest on loans (Note 8)	**6,263**	**-**	**6,263**	10,963	-	10,963
Foreign exchange adjustments	**-**	**(63)**	**(63)**	-	17	17
30 June/31 December	**210,385**	**14,942**	**225,327**	214,359	21,233	235,592

18. Loans and advances to customers

	30 June 2023	31 December 2022
	€000	€000
Gross loans and advances to customers at amortised cost	**9,995,335**	9,917,335
Allowance for ECL for impairment of loans and advances to customers (Note 30.4)	**(197,901)**	(178,442)
	9,797,434	9,738,893
Loans and advances to customers measured at FVPL	**210,385**	214,359
	10,007,819	9,953,252

The following tables present the Group's gross loans and advances to customers at amortised cost by staging and by geographical analysis (based on the country in which the loans are managed).

	Stage 1	Stage 2	Stage 3	POCI	**Total**
30 June 2023	€000	€000	€000	€000	**€000**
Gross loans at amortised cost before residual fair value adjustment on initial recognition	8,261,687	1,365,799	335,225	107,622	**10,070,333**
Residual fair value adjustment on initial recognition	(63,508)	(8,678)	(1,433)	(1,379)	**(74,998)**
Gross loans at amortised cost	**8,198,179**	**1,357,121**	**333,792**	**106,243**	**9,995,335**
Cyprus	8,197,984	1,357,121	333,263	106,243	**9,994,611**
Other Countries	195	-	529	-	**724**
	8,198,179	**1,357,121**	**333,792**	**106,243**	**9,995,335**

31 December 2022					
Gross loans at amortised cost before residual fair value adjustment on initial recognition	7,931,511	1,586,488	372,821	115,544	**10,006,364**
Residual fair value adjustment on initial recognition	(64,255)	(20,885)	(1,803)	(2,086)	**(89,029)**
Gross loans at amortised cost	**7,867,256**	**1,565,603**	**371,018**	**113,458**	**9,917,335**
Cyprus	7,867,037	1,565,603	368,922	113,458	**9,915,020**
Other countries	219	-	2,096	-	**2,315**
	7,867,256	**1,565,603**	**371,018**	**113,458**	**9,917,335**

18. Loans and advances to customers (continued)

Residual fair value adjustment
The residual fair value adjustment on initial recognition mainly relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment decreased the gross balance of loans and advances to customers. The residual fair value adjustment is included within the gross balances of loans and advances to customers as at each balance sheet date. However, for credit risk monitoring, the residual fair value adjustment as at each balance sheet date is presented separately from the gross balances of loans and advances, as shown in the tables above.

Loans and advances to customers measured at FVPL are managed in Cyprus.

The following tables present the Group's gross loans and advances to customers at amortised cost by staging and by business line concentration.

30 June 2023	Stage 1	Stage 2	Stage 3	POCI	**Total**
By business line	€000	€000	€000	€000	**€000**
Corporate and Large Corporate	2,735,590	659,540	50,445	34,094	**3,479,669**
International corporate	694,641	124	37	20	**694,822**
SMEs	852,732	121,177	3,161	9,160	**986,230**
Retail					
- housing	2,970,005	363,472	24,131	11,075	**3,368,683**
- consumer, credit cards and other	777,635	125,125	11,260	14,166	**928,186**
Restructuring					
- corporate	3,615	19,549	20,046	10,206	**53,416**
- SMEs	10,357	12,003	14,622	2,806	**39,788**
- retail housing	5,466	20,629	41,537	2,258	**69,890**
- retail other	2,062	4,666	16,117	954	**23,799**
Recoveries					
- corporate	-	-	17,483	1,154	**18,637**
- SMEs	-	-	29,414	1,664	**31,078**
- retail housing	-	-	78,342	12,168	**90,510**
- retail other	84	-	26,089	5,783	**31,956**
International business unit	105,910	24,658	1,103	177	**131,848**
Wealth management	40,082	6,178	5	558	**46,823**
	8,198,179	**1,357,121**	**333,792**	**106,243**	**9,995,335**

18. Loans and advances to customers (continued)

31 December 2022 By business line	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Corporate and Large Corporate	2,502,630	807,282	54,259	34,616	**3,398,787**
International corporate	685,099	150	35	24	**685,308**
SMEs	825,123	189,825	3,299	10,364	**1,028,611**
Retail					
- housing	2,982,436	305,714	30,071	12,413	**3,330,634**
- consumer, credit cards and other	704,959	152,815	14,376	15,746	**887,896**
Restructuring					
- corporate	2,842	34,246	20,689	10,175	**67,952**
- SMEs	12,643	10,603	23,374	2,381	**49,001**
- retail housing	5,168	22,018	42,155	3,292	**72,633**
- retail other	1,713	5,364	16,237	1,029	**24,343**
Recoveries					
- corporate	-	-	18,403	1,316	**19,719**
- SMEs	-	-	29,339	2,366	**31,705**
- retail housing	-	-	88,956	14,039	**102,995**
- retail other	108	-	28,569	4,953	**33,630**
International business unit	104,539	31,934	1,254	147	**137,874**
Wealth management	39,996	5,652	2	597	**46,247**
	7,867,256	**1,565,603**	**371,018**	**113,458**	**9,917,335**

Loans and advances to customers pledged as collateral are disclosed in Note 32.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL of loans and advances to customers are set out in Note 30.

19. Stock of property

The carrying amount of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During the six months ended 30 June 2023 an impairment loss of €23,206 thousand (30 June 2022: €7,364 thousand) was recognised in 'Impairment net of reversals on non-financial assets' in the consolidated income statement. At 30 June 2023, stock of property of €510,448 thousand (31 December 2022: €529,316 thousand) is carried at net realisable value. Additionally, at 30 June 2023 stock of property with a carrying amount of €49,137 thousand (31 December 2022: €108,010 thousand) is carried at approximately its fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels and land (fields and plots). There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations.

The carrying amount of the stock of property is analysed in the tables below:

	30 June 2023 **€000**	31 December 2022 €000
Net book value at 1 January	**1,041,032**	1,111,604
Additions	**4,440**	76,851
Disposals	**(57,872)**	(126,797)
Net transfers (to)/from property and equipment	**(18,563)**	-
Impairment (Note 12)	**(23,206)**	(20,628)
Foreign exchange adjustments	**-**	2
Net book value at 30 June/31 December	**945,831**	1,041,032

As at 30 June 2023 there are charges against stock of property of the Group with a carrying value €19,500 thousand (31 December 2022: €20,989 thousand).

19. Stock of property (continued)

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
30 June 2023	**€000**	**€000**	**€000**	**€000**
Residential properties	52,628	16,354	31	**69,013**
Offices and other commercial properties	114,797	11,129	-	**125,926**
Manufacturing and industrial properties	27,398	9,617	-	**37,015**
Hotels	22,570	417	-	**22,987**
Land (fields and plots)	687,054	3,836	-	**690,890**
Total	**904,447**	**41,353**	**31**	**945,831**
31 December 2022				
Residential properties	63,724	16,947	32	**80,703**
Offices and other commercial properties	142,475	11,263	-	**153,738**
Manufacturing and industrial properties	29,172	11,710	48	**40,930**
Hotels	24,027	437	-	**24,464**
Land (fields and plots)	736,913	4,284	-	**741,197**
Total	**996,311**	**44,641**	**80**	**1,041,032**

20. Prepayments, accrued income and other assets

	30 June 2023	31 December 2022 (restated)
	€000	€000
Financial assets		
Debtors	**32,363**	29,220
Receivable relating to tax	**4,397**	4,536
Deferred purchase payment consideration	**320,655**	311,523
Other assets	**65,919**	57,183
	423,334	402,462
Non-financial assets		
Reinsurers' share of insurance contract liabilities	**50,580**	46,781
Current tax receivable	**93,681**	124,328
Prepaid expenses	**1,426**	682
Retirement benefit plan assets	**850**	816
Other assets	**39,736**	33,985
	186,273	206,592
	609,607	609,054

There were no financial assets classified as Stage 2 as at 30 June 2023 and 31 December 2022. In addition, no financial assets were measured at FVPL as at 30 June 2023 and 31 December 2022.

On the completion date of the sale of Project Helix 2 (the 'Transaction') in June 2021, the Group recognised an amount of €381,567 thousand in other financial assets, which represented the fair value of the deferred consideration receivable from the Transaction (the 'DPP'). This amount outstanding is payable in four instalments up to December 2025 and each instalment carries interest up to each payment date. An amount of €9,098 thousand, which represents the interest income on DPP has been recognised in the Consolidated Income Statement for the six months ended 30 June 2023 (30 June 2022: €4,314 thousand) within 'Interest income-Financial assets at amortised cost-Other financial assets' (Note 8). There are no other conditions attached. The DPP is classified as Stage 1 as at 30 June 2023 and 31 December 2022.

20. Prepayments, accrued income and other assets (continued)

During the six months ended 30 June 2023, credit losses of €6,110 thousand were recognised in relation to other financial assets. This includes ECL losses of €246 thousand (of which €35 thousand relate to a partial reversal for 12-months ECL of the DPP) and €5,864 thousand impairment losses. During the six months ended 30 June 2022, credit losses of €705 thousand were recognised in relation to prepayments, accrued income and other financial assets. This includes ECL losses of €117 thousand (of which €188 thousand relate to 12-months ECL of the DPP) and €588 thousand impairment losses.

21. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations as set out in the table below:

	30 June 2023	31 December 2022
	€000	€000
Targeted Longer-Term Refinancing Operations (TLTRO III)	**2,004,480**	1,976,674

As at 30 June 2023, ECB funding amounted to €2 billion (31 December 2022: €2 billion) borrowed from various TLTRO III operations.

In recognition of the challenging credit environment during the pandemic period, the Governing Council of the ECB announced that for the counterparties whose eligible net lending reached the lending performance thresholds, the interest rate applied over the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 would be 50 basis points below the average interest rate on the deposit facility prevailing over the same period, and in any case not higher than minus 1%. BOC PCL exceeded the eligible net lending threshold applicable in the specified periods and was entitled to the beneficial rate of minus 1% for the period June 2020 to June 2022 and recognised interest at the beneficial rate over the corresponding period. Subsequently, BOC PCL updated the effective interest rate based on the contractual terms and applicable changes in terms of the operations as a change in the EIR applied prospectively.

ECB during its October 2022 meeting, announced that from 23 November 2022 onwards, the applicable interest rate would be indexed to the average applicable key ECB interest rates from that date onward.

The maturity of TLTRO III is three years from the settlement of each operation, but there is an option to early repay or reduce the amounts borrowed before their respective final maturity.

BOC PCL early repaid €1 billion of TLTRO III funding in December 2022.

Details on encumbered assets related to the above funding facilities are disclosed in Note 32.

22. Customer deposits

	30 June 2023 €000	31 December 2022 €000
By type of deposit		
Demand	**10,359,755**	10,561,724
Savings	**2,948,823**	2,840,346
Time or notice	**5,857,577**	5,596,249
	19,166,155	18,998,319
By geographical area		
Cyprus	**13,378,996**	13,019,109
Greece	**1,845,882**	1,933,771
United Kingdom	**686,916**	706,233
United States	**149,455**	178,962
Germany	**117,613**	168,785
Romania	**60,772**	69,514
Russia	**636,234**	700,465
Ukraine	**301,407**	290,050
Belarus	**81,223**	83,299
Other countries	**1,907,657**	1,848,131
	19,166,155	18,998,319

Deposits by geographical area are based on the country of passport of the Ultimate Beneficial Owner.

	30 June 2023 €000	31 December 2022 €000
By currency		
Euro	**17,298,147**	17,067,299
US Dollar	**1,475,065**	1,529,548
British Pound	**325,625**	333,458
Russian Rouble	**1,825**	3,466
Swiss Franc	**11,150**	11,796
Other currencies	**54,343**	52,752
	19,166,155	18,998,319

22. Customer deposits (continued)

	30 June 2023	31 December 2022
	€000	€000
By business line		
Corporate and Large corporate	**1,964,893**	1,915,300
International corporate	**131,044**	139,898
SMEs	**962,581**	1,007,555
Retail	**11,667,105**	11,333,783
Restructuring		
– Corporate	**13,700**	16,017
– SMEs	**6,992**	6,375
– Retail other	**13,142**	10,152
Recoveries		
– Corporate	**1,155**	1,262
International business unit	**3,848,653**	3,957,050
Wealth management	**556,890**	610,927
	19,166,155	18,998,319

23. Debt securities in issue and Subordinated liabilities

			30 June 2023		31 December 2022	
			Nominal value	**Carrying value**	Nominal value	Carrying value
Subordinated liabilities	**Contractual interest rate**	**Issuer**	**€000**	**€000**	€000	€000
Subordinated Tier 2 Capital Note - April 2021	6.625% up to 23 October 2026	BOCH	**300,000**	**309,348**	300,000	302,104
			300,000	**309,348**	300,000	302,104
Debt securities in issue						
Senior Preferred Notes - June 2021	2.50% up to 24 June 2026	BOC PCL	**300,000**	**291,976**	300,000	297,636

BOCH and BOC PCL maintain a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

Subordinated Liabilities

Subordinated Tier 2 Capital Note - April 2021
In April 2021, BOCH issued a €300 million unsecured and subordinated Tier 2 Capital Note under the EMTN Programme. The note was priced at par with a coupon of 6.625% per annum payable annually in arrears and resettable on 23 October 2026 at the then prevailing 5-year swap rate plus a margin of 6.902% per annum up to 23 October 2031, payable annually. The note matures on 23 October 2031. BOCH has the option to redeem the note early on any day during the six-month period from 23 April 2026 to 23 October 2026, subject to applicable regulatory consents. The note is listed on the Luxembourg Stock Exchange's Euro MTF market.

The fair value of the subordinated liabilities as at 30 June 2023 and 31 December 2022 is disclosed in Note 17.

23. Debt securities in issue and Subordinated liabilities (continued)

Debt securities in issue

Senior Preferred Notes - June 2021
In June 2021, BOC PCL issued a €300 million senior preferred note under the EMTN Programme. The note was priced at par with a fixed coupon of 2.50% per annum, payable annually in arrears and resettable on 24 June 2026. The note matures on 24 June 2027. BOC PCL has the option to redeem the note early on 24 June 2026, subject to applicable regulatory consents. The note is listed on the Luxembourg Stock Exchange's Euro MTF market. The note complies with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contributes towards BOC PCL's MREL requirements.

The fair value of the debt securities in issue as at 30 June 2023 and 31 December 2022 is disclosed in Note 17.

24. Accruals, deferred income, other liabilities and other provisions

	30 June 2023	31 December 2022 (restated)
	€000	€000
Income tax payable and related provisions	**75,477**	41,420
Special defence contribution payable	**363**	379
Retirement benefit plans liabilities	**1,959**	3,694
Provisions for financial guarantees and commitments	**18,007**	17,429
Liabilities arising from non-participating investment contracts	**60,029**	47,847
Accrued expenses and other provisions	**60,801**	65,734
Deferred income	**19,060**	18,061
Items in the course of settlement	**75,111**	97,585
Lease liabilities	**28,627**	30,190
Other liabilities	**90,151**	56,843
	429,585	379,182

Other liabilities include an amount of €10,385 thousand (31 December 2022: €10,385 thousand) relating to the guarantee fee for the conversion of DTA into tax credits (Note 13) and an amount of €16,298 thousand (31 December 2022: €9,874 thousand) relating to card processing transactions.

25. Share capital

	30 June 2023		31 December 2022	
	Number of shares (thousand)	**€000**	Number of shares (thousand)	€000
Authorised				
Ordinary shares of €0.10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000
Issued				
1 January and 30 June/31 December	**446,200**	**44,620**	446,200	44,620

Authorised and issued share capital

All issued ordinary shares carry the same rights.

There were no changes to the authorised or issued share capital during the six months ended 30 June 2023 and the year ended 31 December 2022.

Share premium reserve

There were no changes to the share premium reserve during the six months ended 30 June 2023 and the year ended 31 December 2022.

25. Share capital (continued)

Treasury shares of the Company

The consideration paid, including any directly attributable incremental costs (net of income taxes), for shares of the Company held by entities controlled by the Group is deducted from equity attributable to the owners of the Company as treasury shares, until these shares are cancelled or reissued. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of such shares.

The life insurance subsidiary of the Group, as at 30 June 2023, held a total of 142 thousand ordinary shares of the Company of a nominal value of €0.10 each (31 December 2022: 142 thousand ordinary shares of a nominal value of €0.10 each), as part of its financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €21,463 thousand (31 December 2022: €21,463 thousand).

Other equity instruments

	30 June 2023	31 December 2022
	€000	€000
2018 Reset Perpetual Additional Tier 1 Capital Securities (Existing Capital Securities)	**15,517**	220,000
2023 Reset Perpetual Additional Tier 1 Capital Securities (New Capital Securities)	**220,000**	-
	235,517	220,000

In December 2018, the Company issued €220 million Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the 'Existing Capital Securities'). The Existing Capital Securities constitute an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. During the six months ended 30 June 2023, a coupon payment was made to the holders of a total amount of €13,750 thousand and has been recognised in retained earnings (30 June 2022: €13,750 thousand). The Existing Capital Securities are listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

The Company, in June 2023, invited the holders of its outstanding €220 million Existing Capital Securities to tender their Existing Capital Securities for cash purchase by the Company at a price equal to 103% of the principal amount. The Company also paid accrued interest on the Existing Capital Securities, from the last coupon date, 15 June 2023 until the settlement date.

The Company received valid tenders of approximately €204 million in aggregate nominal amount, all of which were accepted by the Company. As a result, a cost of €6,554 thousand was recorded directly in equity in June 2023, forfeiting relevant future coupon payments.

In July 2023, the Company purchased in the open market approximately €7 million, further reducing the outstanding nominal amount of the Existing Capital Securities to approximately €8 million.

At the same time, the Company on 13 June 2023, successfully launched and priced an issue of €220 million Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the 'New Capital Securities'). The New Capital Securities constitute unsecured and subordinated obligations of the Company, are perpetual and are issued at par. They carry an initial coupon of 11.875% per annum, payable semi-annually, and resettable on 21 December 2028 and every 5 years thereafter. The Company may elect to cancel any interest payment for an unlimited period, on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain conditions. The New Capital Securities are perpetual and have no fixed date of redemption, but can be redeemed (in whole but not in part) at the Company's option from, and including, 21 June 2028 to, and including, 21 December 2028 and on each interest payment date thereafter, subject to applicable regulatory consents and the relevant conditions to redemption. The New Capital Securities are listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

Transaction costs of €3,530 thousand in relation to the transactions were recorded directly in equity in June 2023.

26. Dividends

Based on the 2022 SREP decision, effective from 1 January 2023, any equity dividend distribution is subject to regulatory approval, both for the Company and BOC PCL. The requirement for approval does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 Capital nor to the payment of coupons on any AT1 capital instruments issued by the Company or BOC PCL.

In April 2023, the Company obtained the approval of the European Central Bank to pay a dividend. Following this approval, the Board of Directors of the Company recommended to the shareholders for approval at the Annual General Meeting ('AGM') on 26 May 2023, a final dividend of €0.05 per ordinary share in respect of the earnings of the year ended 31 December 2022 ('Dividend'). The AGM on 26 May 2023 declared a final dividend of €0.05 per share. The Dividend amounts to €22,310 thousand in total and is equivalent to a payout ratio of 14% of the financial year 2022 recurring profitability adjusted for the AT1 coupon or 31% based on the financial year 2022 profit after tax (as reported in the 2022 Annual Financial Report).

27. Provisions for pending litigation, claims, regulatory and other matters

The Group, in the ordinary course of business, is involved in various disputes and legal proceedings and is subject to enquiries and examinations, requests for information, audits, investigations, legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent restructuring of BOC PCL in 2013 as a result of the bail-in Decrees, BOC PCL is subject to a large number of proceedings and investigations that either precede or result from the events that occurred during the period of the bail-in Decrees.

Apart from what is described below, the Group considers that none of these matters are material, either individually or in aggregate. Nevertheless, provisions have been made where: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so, because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses (Note 6.4). Where an individual provision is material, the fact that a provision has been made is stated except to the extent that doing so would be prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. There are also situations where the Group may enter into a settlement agreement. This may occur only if such settlement is in BOC PCL's interest (such settlement does not constitute an admission of wrongdoing) and only takes place after obtaining legal advice and all approvals by the appropriate bodies of management. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings, regulatory and other matters as at 30 June 2023 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

27.1 Pending litigation and claims

Investigations and litigation relating to securities issued by BOC PCL
A number of institutional and retail customers have filed various separate actions against BOC PCL alleging that BOC PCL is guilty of misselling in relation to securities issued by BOC PCL between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon BOC PCL in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

27. Provisions for pending litigation, claims, regulatory and other matters (continued)

27.1 Pending litigation and claims (continued)

BOC PCL is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be demonstrated that the relevant BOC PCL's officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', BOC PCL may face significant difficulties.

To date, a number of cases have been tried in Greece. BOC PCL has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years.

So far four capital securities cases have been adjudicated in favour of BOC PCL and four cases have been adjudicated against BOC PCL at Areios Pagos (Supreme Court of Greece). The cases that BOC PCL has won will be retried by the Court of Appeal as per the direction of the Supreme Court. One of the said cases has already been retried by the Court of Appeal and the ruling was in favour of BOC PCL. There has been a new petition for annulment against this decision of the Court of Appeal and the case will be retried before the Supreme Court in 2023. The four cases that BOC PCL has lost will not be retried and are therefore deemed as concluded.

In Cyprus nineteen judgments have been issued so far with regards to BOC PCL capital securities. Thirteen of the said judgments have been issued in favour of BOC PCL (dismissing the plaintiffs' claims) and six of them against BOC PCL. BOC PCL has filed appeals with regards to all of the cases where the judgment was issued against it. In six of the thirteen cases that BOC PCL won, the plaintiffs have filed an appeal. It is to be noted that the statutory limitation period for filing claims with respect to this and other matters for which the cause of action arose prior and up to 31 December 2015, expired on 31 December 2021.

Provision has been made based on management's best estimate of probable outflows for capital securities related litigation.

Bail-in related litigation
Depositors
A number of BOC PCL's depositors, who allege that they were adversely affected by the bail-in, filed claims against BOC PCL and other parties (such as the CBC and the Ministry of Finance of Cyprus) including against BOC PCL as the alleged successor of Laiki Bank on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. BOC PCL is defending these actions.

BOC PCL has won five cases with regards to bail-in related litigation (on failure to follow instructions). The plaintiffs have filed appeals with respect to two of the said judgments. BOC PCL lost one case with regards to bail-in related litigation (on failure to follow instructions) and has filed an appeal.

BOC PCL also won five bail-in decree related cases. In summary, the court ruled that the measures that the government implemented were necessary to prevent the collapse of the financial sector, which would have detrimental consequences for the country's economy. Under the circumstances the government could rely on the doctrine of necessity when it imposed the bail-in. Up to the date of the Consolidated Financial Statements only one appeal has been filed with respect to the above mentioned judgments. BOC PCL lost one Laiki Bail-in decree case but it is the opinion of legal advisors of BOC PCL that this case is a one-off case which turned on its own particular facts. An appeal by BOC PCL has been filed with respect to this case.

BOC PCL won two and lost three bail-in wrongful application related cases. The appeals that have been filed by BOC PCL are still pending with regards to this matter. With regards to the cases that BOC PCL won, the plaintiffs have not filed an appeal.

Shareholders
A number of actions for damages have been filed with the District Courts of Cyprus alleging either the unconstitutionality of the Resolution Law and the Bail-in Decrees, or a misapplication of same by BOC PCL (as regards the way and methodology whereby such Decrees have been implemented), or that BOC PCL failed to follow instructions promptly prior to the bail-in coming into force. As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. BOC PCL contests all of these claims.

27. Provisions for pending litigation, claims, regulatory and other matters (continued)

27.1 Pending litigation and claims (continued)

Legal position of the Group
All of the above claims are being vigorously disputed by the Group, in close consultation with the appropriate state and governmental authorities. The position of the Group is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

Provident fund case
In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against BOC PCL claiming €70 million allegedly owed as part of BOC PCL's contribution by virtue of an agreement with the Union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for BOC PCL to predict the resolution of this matter, including the timing or any possible impact on BOC PCL.

Employment litigation
Former employees of the Group have instituted a number of employment claims including unfair dismissals and one claim for Provident Fund entitlements against BOC PCL and the Trustees of the Provident Fund. In July 2021 the claim for Provident Fund entitlements was settled. The Group does not consider that the pending cases in relation to employment will have a material impact on its financial position. A judgment has been issued in one of the unfair dismissal cases and BOC PCL lost. BOC PCL has filed an appeal with respect to this case and similarly, the plaintiff has also filed an appeal. The facts of this case are unique and it is not expected to affect the rest of the cases where unfair dismissal is claimed.

Additionally, a number of former employees have filed claims against BOC PCL contesting entitlements received relating to the various voluntary exit plans. As at the reporting date, the Group does not expect that these actions will have a material impact on its financial position.

Swiss Francs loans litigation in Cyprus and the UK
A number of actions have been instituted against BOC PCL by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that BOC PCL misled these borrowers and/or misrepresented matters, in violation of applicable law. BOC PCL is contesting the said proceedings. The Group does not expect that these actions will have a material impact on its financial position.

UK property lending claims
BOC PCL is the defendant in certain proceedings alleging that BOC PCL is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the UK are currently stayed in order for the parties to have time to negotiate possible settlements. The Group does not expect that these negotiations will lead to outflows for the Group.

Banking business cases
There is a number of banking business cases where the amounts claimed are significant. These cases primarily concern allegations as to BOC PCL's standard policies and procedures allegedly resulting to damages and other losses for the claimants. Further, there are several other banking claims, where the amounts involved are not as significant. Management has assessed either the probability of loss as remote and/or does not expect any future outflows with respect to these cases to have a material impact on the financial position of the Group. Such matters arise as a result of the Group’s activities and management appropriately assesses the facts and the risks of each case accordingly.

General criminal investigations and proceedings
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. BOC PCL is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Group is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

27. Provisions for pending litigation, claims, regulatory and other matters (continued)

27.1 Pending litigation and claims (continued)

Others
An investigation is in process related to potentially overstated and/or fictitious claims paid by the non-life insurance subsidiary of the Group. The information usually required by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed on the grounds that it is expected to seriously prejudice the outcome of the investigation and/or the possible taking of legal action. Based on the information available at present, management considers that it is unlikely for this matter to have a material adverse impact on the financial position and capital adequacy of the non-life insurance subsidiary and thereby the Group, also taking into account that it is virtually certain that compensations will be received from a relevant insurance coverage, upon the settlement of any obligation that may arise.

27.2 Regulatory matters

The Hellenic Capital Market Commission (HCMC) Investigation
The HCMC is currently in the process of investigating matters concerning the Group's investment in Greek Government Bonds from 2009 to 2011, including, inter alia, related non-disclosure of material information in BOC PCL's CCS, CECS and rights issue prospectuses (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some investors regarding BOC PCL's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

The Cyprus Securities and Exchange Commission (CySEC) Investigations
CySEC has concluded (in two stages) during 2013 and 2014 its investigation with respect to BOC PCL exposure to Greek Government Bonds and the non-disclosure of material information and other corporate governance deficiencies relating to the said exposure. In this respect, CySEC has issued two decisions, coming to the conclusion that BOC PCL was in breach of certain laws regarding disclosure of information. At all times, BOC PCL had filed recourses before the Administrative Court regarding the decisions of CySEC and the fines imposed upon it.

In October 2021 the Administrative Court ruled in favour of BOC PCL in relation to the fine of €160 thousand on the ground of flawed constitution of the CySEC Board. In May 2022, the Administrative Court (under a different bench) ruled against BOC PCL in relation to the fine of €950 thousand and found that the constitution of the CySEC Board was not flawed. In May 2023 the Administrative Court ruled in favour of BOC PCL in relation to the fine of €70 thousand on the ground of flawed constitution of the CySEC Board. All cases are now pending on appeal. Relevant provisions were made in prior years for the said cases.

As at 30 June 2023 and 31 December 2022 there were no pending CySEC investigations against BOC PCL.

Central Bank of Cyprus (CBC)
The CBC has carried out certain investigations to assess compliance of BOC PCL under the anti-money laundering (AML) legislation which was in place during years 2008-2015 and 2015-2018.

Following the investigations and the on-site audit findings, the CBC concluded on 27 January 2021 that in the case of AML legislation 2008-2015 BOC PCL was in breach of certain articles of the said legislation and prima facie, failed to act in accordance with certain provisions of the AML/counter terrorism financing (CTF) Law and the CBC AML/CTF Directive. In October 2021 a fine of €277 thousand was imposed upon BOC PCL. BOC PCL paid a discounted fine and has filed a recourse against this decision and fine.

Following the investigation and the on-site examination, the CBC concluded with regards to the files and transactions related to years 2015-2018, that BOC PCL was in breach of certain articles of the legislation. In December 2021, a fine of €790 thousand was imposed upon BOC PCL. BOC PCL paid a discounted fine and has filed a recourse against the decision and the fine.

27. Provisions for pending litigation, claims, regulatory and other matters (continued)

27.2 Regulatory matters (continued)

The CBC had conducted an investigation in the past into BOC PCL's issuance of capital securities and concluded that BOC PCL breached certain regulatory requirements concerning the issuance of Convertible Capital Securities (Perpetual) in 2009, but not in relation to the CECS in 2011. The CBC had, in 2013, imposed a fine of €4 thousand upon BOC PCL, who filed a recourse. The Administrative Court cancelled both the CBC's decision and the fine that was imposed upon BOC PCL in a respective judgment dated in 2020. CBC decided to re-examine this matter and to re-open the investigation.

Commission for the Protection of Competition Investigation (CPC)
In April 2014, following an investigation which began in 2010, CPC issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, BOC PCL and JCC Payment Systems Ltd (JCC), a card processing business currently 75% owned by BOC PCL. BOC PCL is expecting the final conclusion of this matter and has provided for it accordingly.

There was also an allegation concerning BOC PCL's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that BOC PCL (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017, the CPC imposed a fine of €18 million upon BOC PCL and BOC PCL filed a recourse against the decision and the fine. The payment of the fine had been stayed, pending the final outcome of the recourse. In June 2018, the Administrative Court accepted BOC PCL's position and cancelled the decision as well as the fine imposed upon BOC PCL. During 2018, the Attorney General has filed an appeal before the Supreme court with respect to such decision. Until a judgment is issued by the Supreme Court, the decision of the CPC remains annulled and there is no subsisting fine upon BOC PCL. The said appeal is still pending as at 30 June 2023.

In 2019, the CPC initiated an ex officio investigation with respect to unfair contract terms and into the contractual arrangements/facilities offered by BOC PCL for the period from 2012 to 2016. To date no charges have been put forward nor have any formal proceedings been instituted against BOC PCL in this case. The Group is not aware of any further developments in this case.

Association for the Protection of Bank Borrowers (CYPRODAT)
CYPRODAT filed a complaint with the Commission for the Protection of Competition (CPC) in January 2022, claiming that BOC PCL and another bank have concerted in practices regarding the recent revisions of their commissions and charges. In April 2022, CPC informed BOC PCL of the initiation of an investigation with respect to this matter but for which no formulation of a Statement of Objections has been received to date which would indicate the initiation of formal proceedings.

Consumer Protection Service (CPS)
In July 2017, CPS imposed a fine of €170 thousand upon BOC PCL after concluding an ex officio investigation regarding some terms in both BOC PCL's and Marfin Popular Bank's loan documentation, that were found to constitute unfair commercial practices. Decisions of the CPS (according to rulings of the Administrative Court) are not binding but merely an expression of opinion. BOC PCL has filed a recourse before the Administrative Court against this decision. The Administrative Court has issued its judgment in 2022 in favour of BOC PCL, and the CPS decision along with the fine have been cancelled. An appeal has been submitted by CPS with regards to this judgment, which is still pending as at 30 June 2023.

In March 2020, BOC PCL has been served with an application by the director of CPS through the Attorney General seeking for an order of the court, with immediate effect, the result of which will be for BOC PCL to cease the use of a number of terms in the contracts of BOC PCL which are deemed to be unfair under the said order. The said terms relate to contracts that had been signed during 2006-2007. Furthermore, the said application seeks for an order ordering BOC PCL to undertake measures to remedy the situation. BOC PCL will take all necessary steps for the protection of its interests. This matter is still pending before the court as at 30 June 2023.

In April 2021, the Director of CPS filed an application for the issuance of a court order against BOC PCL, prohibiting the use of a number of contractual terms included in BOC PCL's consumer contracts and requiring the amendment of any such contracts (present and future) so as to remove such unfair terms. This matter is still pending before the court as at 30 June 2023.

27. Provisions for pending litigation, claims, regulatory and other matters (continued)

27.2 Regulatory matters (continued)

BOC PCL received a letter in July 2021 from CPS, initiating an ex officio investigation under the Distance Marketing of Financial Services to Consumers Law, with respect to the services and products of BOC PCL for which the contract between BOC PCL and the consumer is entered into online via BOC PCL's website.

BOC PCL received another letter in July 2021 from CPS, initiating an investigation with respect to an alleged wrong commercial practice of BOC PCL of promoting a product.

There have been no further developments on the aforementioned investigations since.

Cyprus Consumers' Association (CCA)
In March 2021, BOC PCL was served with an application filed by the CCA for the issuance of a court order prohibiting the use of a number of contractual terms included in BOC PCL's consumer contracts and requiring the amendment of any such contracts (present and future) so as to remove such terms deemed as unfair. The said contractual terms were determined as unfair pursuant to the decisions issued by the Consumer Protection Service of the Ministry of Energy, Commerce, Industry and Tourism against BOC PCL in 2016 and 2017. BOC PCL will take all necessary steps for the protection of its interests. This matter is still pending before the court as at 30 June 2023.

The new Law on Consumer Protection brings under one umbrella the existing legislation on unfair contract terms and practices with some enhanced powers vested in the Consumer Protection Service, i.e. power to impose increased fines which are immediately payable. The new Law on Consumer Protection has a retrospective effect in that it also applies to all contracts/practices entered into and/or terminated prior to this law coming into effect as opposed to contracts/practices which are only entered into/adopted as from the date of publication of the new Law on Consumer Protection.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, is unknown.

UK regulatory matters
As part of the agreement for the sale of Bank of Cyprus UK Ltd, a liability with regards to UK regulatory matters remains an obligation for settlement by the Group. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management.

27.3 Other matters

Other matters include among others, provisions for various other open examination requests by governmental and other public bodies, legal matters and provisions for warranties and indemnities related to the disposal process of certain operations of the Group.

The provisions for pending litigation, claims, regulatory and other matters described above and provided in the tables below do not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries as these are included in 'Insurance liabilities'.

27.4 Provisions for pending litigation, claims, regulatory and other matters

	Pending litigation and claims (Note 27.1)	Regulatory matters (Note 27.2)	Other matters (Note 27.3)	**Total**
2023	€000	€000	€000	**€000**
1 January	63,947	14,918	48,742	**127,607**
Net increase in provisions including unwinding of discount	14,682	-	4,095	**18,777**
Utilisation of provisions	(14,289)	-	-	**(14,289)**
Release of provisions	(4,629)	-	-	**(4,629)**
Transfer	-	-	767	**767**
Foreign exchange adjustments	-	34	-	**34**
30 June	**59,711**	**14,952**	**53,604**	**128,267**

27. Provisions for pending litigation, claims, regulatory and other matters (continued)

27.4 Provisions for pending litigation, claims, regulatory and other matters (continued)

	Pending litigation and claims (Note 27.1)	Regulatory matters (Note 27.2)	Other matters (Note 27.3)	**Total**
2022	€000	€000	€000	**€000**
1 January	57,844	16,415	29,849	**104,108**
Net increase in provisions including unwinding of discount	1,086	950	-	**2,036**
Utilisation of provisions	(78)	(759)	-	**(837)**
Release of provisions	(392)	-	(100)	**(492)**
Foreign exchange adjustments	-	(22)	-	**(22)**
30 June	**58,460**	**16,584**	**29,749**	**104,793**

Provisions for pending litigation, claims, regulatory and other matters recorded in the consolidated income statement during the six months ended 30 June 2023 amount to €14,148 thousand (30 June 2022: €594 thousand). The increase in the six months ended 30 June 2023 is driven by the revised approach on pending litigation fees and the progress on legal cases, as well as higher one-off provisions for other matters in relation to the run-down and disposal of the Group's legacy and non-core operations.

Some information required by the IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation or the outcome of the negotiation in relation to provisions for warranties and indemnities related to the disposal process of certain operations of the Group.

An increase by 5% in the probability of loss rate for pending litigation and claims (31 December 2022: 5%) with all other variables held constant, would lead to an increase in the actual provision by €2,236 thousand at 30 June 2023 (31 December 2022: increase by €2,821 thousand).

27.5 Contingent liabilities and commitments

The Group, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Group may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been recognised, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable.

Capital commitments for the acquisition of property, equipment and intangible assets as at 30 June 2023 amount to €22,159 thousand (31 December 2022: €10,647 thousand).

28. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2023	31 December 2022
	€000	€000
Cash and non-obligatory balances with central banks	**8,988,967**	9,452,721
Loans and advances to banks with original maturity less than three months	**363,948**	133,432
	9,352,915	9,586,153

28. Cash and cash equivalents (continued)

Analysis of cash and balances with central banks and loans and advances to banks

	30 June 2023	31 December 2022
	€000	€000
Cash and non-obligatory balances with central banks	**8,988,967**	9,452,721
Obligatory balances with central banks	**138,462**	114,537
Total cash and balances with central banks	**9,127,429**	9,567,258

Loans and advances to banks with original maturity less than three months	**363,948**	133,432
Restricted loans and advances to banks	**67,864**	71,379
Total loans and advances to banks	**431,812**	204,811

Restricted loans and advances to banks include collaterals under derivative transactions of €1,750 thousand (31 December 2022: €7,380 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

29. Analysis of assets and liabilities by expected maturity

	30 June 2023			31 December 2022 (restated)		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
Assets	**€000**	**€000**	**€000**	€000	€000	€000
Cash and balances with central banks	**8,988,967**	**138,462**	**9,127,429**	9,452,721	114,537	9,567,258
Loans and advances to banks	**363,948**	**67,864**	**431,812**	133,432	71,379	204,811
Derivative financial assets	**7,189**	**42,113**	**49,302**	904	47,249	48,153
Investments	**821,389**	**2,508,318**	**3,329,707**	460,070	2,243,633	2,703,703
Loans and advances to customers	**1,116,605**	**8,891,214**	**10,007,819**	880,158	9,073,094	9,953,252
Life insurance business assets attributable to policyholders	**16,787**	**571,095**	**587,882**	15,486	526,835	542,321
Prepayments, accrued income and other assets	**267,403**	**342,204**	**609,607**	256,077	352,977	609,054
Stock of property	**202,887**	**742,944**	**945,831**	301,275	739,757	1,041,032
Investment properties	**14,385**	**59,954**	**74,339**	24,749	60,350	85,099
Deferred tax assets	**37,909**	**190,044**	**227,953**	37,909	190,025	227,934
Property, equipment and intangible assets	**-**	**314,956**	**314,956**	-	305,924	305,924
	11,837,469	**13,869,168**	**25,706,637**	11,562,781	13,725,760	25,288,541
Liabilities						
Deposits by banks	**155,885**	**292,828**	**448,713**	191,635	316,023	507,658
Funding from central banks	**2,004,480**	**-**	**2,004,480**	1,976,674	-	1,976,674
Derivative financial liabilities	**4,614**	**13,777**	**18,391**	10,538	5,631	16,169
Customer deposits	**5,945,245**	**13,220,910**	**19,166,155**	5,893,802	13,104,517	18,998,319
Insurance liabilities	**87,461**	**544,456**	**631,917**	88,647	511,345	599,992
Accruals, deferred income and other liabilities and provisions for pending litigation, claims, regulatory and other matters	**382,818**	**175,034**	**557,852**	295,678	211,111	506,789
Debt securities in issue and subordinated liabilities	**-**	**601,324**	**601,324**	-	599,740	599,740
Deferred tax liabilities	**1,622**	**32,996**	**34,618**	1,207	33,427	34,634
	8,582,125	**14,881,325**	**23,463,450**	8,458,181	14,781,794	23,239,975

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

Cash and balances with central banks are classified in the relevant time band based on the contractual maturity, with the exception of obligatory balances with central banks which are classified in the 'Over one year' time band.

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one.

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'Over one year' time band. The Stage 3 Loans are classified in the 'Over one year' time band except cash flows from expected receipts which are included within time bands, according to historic amounts of receipts in the recent months.

29. Analysis of assets and liabilities by expected maturity (continued)

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits maturing within one year is classified in the 'Over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

30. Risk management - Credit risk

In the ordinary course of its business the Group is exposed to credit risk which is monitored through various control mechanisms across all Group entities in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their credit obligations towards the Group.

The Credit Risk Management department, in co-operation with the Credit Risk Control and Monitoring department, set the Group's credit risk policies and monitor compliance with credit risk policies applicable to each business line and the quality of the Group's loans and advances portfolio through the timely credit risk assessment of customers. The credit exposures of related accounts are aggregated and monitored on a consolidated basis.

The Credit Risk Management department, in co-operation with the Credit Risk Control and Monitoring department, also safeguard the effective management of credit risk at all stages of the credit cycle, monitor the quality of decisions and processes and ensure that the credit sanctioning function is being properly managed.

The credit policies are complemented by the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of the customers' creditworthiness, their economic sector of activity and geographical concentration.

The credit risk exposure of the Group is diversified across the various industry sectors of the economy. Credit Risk Management department determines concentration limits for each industry sector, sets prohibited sectors and defines sectors which may require prior approval before credit applications are submitted.

The Market & Liquidity Risk department assesses the credit risk relating to exposures to Credit Institutions and Governments and other debt securities.

Models and limits are presented to and approved by the Board of Directors, through the relevant authority based on the authorisation level limits.

The Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 6 'Significant and other judgements, estimates and assumptions' of these Consolidated Financial Statements.

30. Risk management - Credit risk (continued)

30.1 Maximum exposure to credit risk and collateral and other credit enhancements

Loans and advances to customers
The Credit Risk Management department determines the level and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on contracts of sale and personal and corporate guarantees.

The Group regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Off-balance sheet exposures
The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee facilities (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Other financial instruments
Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions. As at 30 June 2023, the majority of derivative exposures are covered by ISDA netting arrangements. A detailed analysis of derivative asset and liability exposures is available in Note 16. Information about the Group's collaterals under derivative transactions is provided in Note 28.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

30. Risk management - Credit risk (continued)

30.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

Maximum Exposure to credit risk
The table below presents the maximum exposure to credit risk before taking into account the tangible and measurable collateral and credit enhancements held.

	30 June 2023	31 December 2022 (restated)
	€000	€000
Balances with central banks	**9,039,067**	9,475,541
Loans and advances to banks (Note 28)	**431,812**	204,811
Other non-equity securities at FVPL (Note 15)	**3,364**	8,968
Debt securities classified at amortised cost and FVOCI (Note 15)	**3,178,127**	2,499,894
Derivative financial instruments (Note 16)	**49,302**	48,153
Loans and advances to customers (Note 18)	**10,007,819**	9,953,252
Debtors (Note 20)	**32,363**	29,220
Reinsurers' share of insurance contract liabilities (Note 20)	**50,580**	46,781
Deferred purchase payment consideration (Note 20)	**320,655**	311,523
Other assets (Note 20)	**65,919**	57,183
On-balance sheet total	**23,179,008**	22,635,326
Contingent liabilities		
Acceptances and endorsements	**3,034**	5,175
Guarantees	**696,362**	651,219
Commitments		
Documentary credits	**3,399**	17,624
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**1,957,084**	1,909,487
Off-balance sheet total	**2,659,879**	2,583,505
	25,838,887	25,218,831

30.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. The Group's Risk Appetite Statement may impose stricter concentration limits which are monitored by the Group.

The credit risk concentration, which is based on industry (economic activity) and business line, as well as the geographical concentration, is presented below.

The geographical analysis, for credit risk concentration purposes, is based on the Group's Country Risk Policy which is followed for monitoring the Group's exposures. Market and Liquidity Risk department is responsible for analysing the country risk of exposures. ALCO reviews the country risk of exposures on a quarterly basis and the Board, through its Risk Committee, reviews the country risk of exposures and any breaches of country risk limits on a regular basis and at least annually.

The table below presents the geographical concentration of loans and advances to customers by country of risk based on the country of residency for individuals and the country of registration for companies.

30. Risk management - Credit risk (continued)

30.2 Credit risk concentration of loans and advances to customers (continued)

30 June 2023	Cyprus	Greece	United Kingdom	Russia	Other countries	Gross loans at amortised cost
By economic activity	€000	€000	€000	€000	€000	**€000**
Trade	915,396	337	38	-	38	**915,809**
Manufacturing	310,474	44,480	-	-	27,251	**382,205**
Hotels and catering	962,779	27,120	37,020	-	39,863	**1,066,782**
Construction	526,060	8,677	18	1	373	**535,129**
Real estate	931,771	101,245	1,960	-	52,189	**1,087,165**
Private individuals	4,534,353	11,616	65,551	15,684	51,257	**4,678,461**
Professional and other services	547,629	621	5,280	336	41,780	**595,646**
Shipping	22,858	24	-	-	209,886	**232,768**
Other sectors	469,361	-	1	3	32,005	**501,370**
	9,220,681	**194,120**	**109,868**	**16,024**	**454,642**	**9,995,335**

30 June 2023	Cyprus	Greece	United Kingdom	Russia	Other countries	Gross loans at amortised cost
By business line	€000	€000	€000	€000	€000	**€000**
Corporate and Large corporate	3,450,891	28,255	-	333	190	**3,479,669**
International corporate	100,541	157,853	43,818	-	392,610	**694,822**
SMEs	982,114	529	1,215	-	2,372	**986,230**
Retail						
- housing	3,315,768	2,486	32,680	91	17,658	**3,368,683**
- consumer, credit cards and other	926,010	793	561	-	822	**928,186**
Restructuring						
- corporate	52,376	-	975	-	65	**53,416**
- SMEs	39,320	-	397	71	-	**39,788**
- retail housing	67,332	101	2,002	275	180	**69,890**
- retail other	23,723	36	18	-	22	**23,799**
Recoveries						
- corporate	17,060	-	458	176	943	**18,637**
- SMEs	25,994	-	1,039	2,147	1,898	**31,078**
- retail housing	61,682	210	17,670	2,981	7,967	**90,510**
- retail other	29,889	24	1,336	274	433	**31,956**
International business unit	88,667	1,672	7,607	9,676	24,226	**131,848**
Wealth management	39,314	2,161	92	-	5,256	**46,823**
	9,220,681	**194,120**	**109,868**	**16,024**	**454,642**	**9,995,335**

31 December 2022	Cyprus	Greece	United Kingdom	Russia	Other countries	Gross loans at amortised cost
By economic activity	€000	€000	€000	€000	€000	**€000**
Trade	922,093	384	37	-	35	**922,549**
Manufacturing	323,074	44,978	-	-	27,943	**395,995**
Hotels and catering	928,346	16,565	35,614	-	40,086	**1,020,611**
Construction	545,421	8,955	23	1	1,985	**556,385**
Real estate	978,708	94,823	1,866	-	51,617	**1,127,014**
Private individuals	4,496,081	11,146	73,120	19,103	54,985	**4,654,435**
Professional and other services	551,269	980	5,311	313	37,830	**595,703**
Shipping	13,338	-	-	-	173,830	**187,168**
Other sectors	427,535	2	-	3	29,935	**457,475**
	9,185,865	**177,833**	**115,971**	**19,420**	**418,246**	**9,917,335**

30. Risk management - Credit risk (continued)

30.2 Credit risk concentration of loans and advances to customers (continued)

31 December 2022	Cyprus	Greece	United Kingdom	Russia	Other countries	**Gross loans at amortised cost**
By business line	€000	€000	€000	€000	€000	**€000**
Corporate and Large corporate	3,380,542	17,781	50	312	102	**3,398,787**
International corporate	139,813	152,143	42,327	-	351,025	**685,308**
SMEs	1,021,950	1,036	1,451	-	4,174	**1,028,611**
Retail						
- housing	3,272,253	2,450	36,839	186	18,906	**3,330,634**
- consumer, credit cards and other	885,558	856	576	1	905	**887,896**
Restructuring						
- corporate	66,151	-	869	-	932	**67,952**
- SMEs	48,027	-	432	158	384	**49,001**
- retail housing	70,283	104	1,841	291	114	**72,633**
- retail other	24,093	16	21	192	21	**24,343**
Recoveries						
- corporate	19,063	-	452	172	32	**19,719**
- SMEs	26,150	-	1,117	2,664	1,774	**31,705**
- retail housing	69,790	260	19,778	3,431	9,736	**102,995**
- retail other	31,967	12	1,265	49	337	**33,630**
International business unit	90,652	1,722	8,953	11,964	24,583	**137,874**
Wealth management	39,573	1,453	-	-	5,221	**46,247**
	9,185,865	**177,833**	**115,971**	**19,420**	**418,246**	**9,917,335**

The loans and advances to customers include lending exposures in Cyprus with collaterals in Greece with a carrying value as at 30 June 2023 of €134,730 thousand (31 December 2022: €106,701 thousand).

The loans and advances to customers reported within 'Other countries' as at 30 June 2023 include exposures of €2,2 million in Ukraine (31 December 2022: €2,6 million).

30.3 Analysis of loans and advances to customers

The movement of the gross loans and advances to customers at amortised cost by staging, (30 June 2022: including the loans and advances to customers classified as held for sale), is presented in the tables below:

	Stage 1	Stage 2	Stage 3	POCI	**Total**
30 June 2023	€000	€000	€000	€000	**€000**
1 January	7,867,256	1,565,603	371,018	113,458	**9,917,335**
Transfers to stage 1	599,556	(599,556)	-	-	**-**
Transfers to stage 2	(415,621)	435,606	(19,985)	-	**-**
Transfers to stage 3	(8,755)	(12,000)	20,755	-	**-**
Foreign exchange and other adjustments	(25)	-	21	-	**(4)**
Write offs	(188)	(310)	(17,728)	(2,958)	**(21,184)**
Interest accrued and other adjustments	158,717	26,902	22,496	3,339	**211,454**
New loans originated or purchased and drawdowns of existing facilities	969,848	24,136	558	364	**994,906**
Loans derecognised or repaid (excluding write offs)	(974,108)	(84,076)	(41,624)	(11,439)	**(1,111,247)**
Changes to contractual cash flows due to modifications	1,499	816	(1,719)	(170)	**426**
Acquisition of Velocity 2 portfolio	-	-	-	3,649	**3,649**
30 June	**8,198,179**	**1,357,121**	**333,792**	**106,243**	**9,995,335**

30. Risk management - Credit risk (continued)

30.3 Analysis of loans and advances to customers (continued)

30 June 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
1 January	7,418,695	1,701,255	1,047,802	228,572	**10,396,324**
Transfers to stage 1	292,741	(292,741)	-	-	**-**
Transfers to stage 2	(405,422)	429,065	(23,643)	-	**-**
Transfers to stage 3	(4,782)	(19,409)	24,191	-	**-**
Foreign exchange and other adjustments	(24)	-	905	-	**881**
Write offs	(398)	(295)	(100,301)	(17,522)	**(118,516)**
Interest accrued and other adjustments	94,167	38,719	37,154	13,327	**183,367**
New loans originated or purchased and drawdowns of existing facilities	1,060,453	46,984	200	852	**1,108,489**
Loans derecognised or repaid (excluding write offs)	(763,291)	(103,101)	(56,132)	(25,008)	**(947,532)**
Changes to contractual cash flows due to modifications	(798)	1,150	(3,074)	(119)	**(2,841)**
30 June	**7,691,341**	**1,801,627**	**927,102**	**200,102**	**10,620,172**

For revolving facilities, overdrafts and credit cards the net positive change in balance by stage excluding write-offs is reported in 'New loans originated' and the net negative change is reported in 'Loans derecognised or repaid'.

The analysis of gross loans and advances to customers at amortised cost by staging and by business line concentration is included in Note 18.

During the six months ended 30 June 2023, the Group purchased back certain loans disposed in 2020 as part of Velocity 2. The loans, which relate primarily to retail unsecured facilities, were classified as POCI and have a net book value of €1,257 thousand as at 30 June 2023.

30. Risk management - Credit risk (continued)

30.4 Credit losses of loans and advances to customers

The movement in ECL of loans and advances to customers (30 June 2022: including the ECL for loans and advances to customers held for sale), is as follows:

30 June 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	22,288	27,041	113,573	15,540	**178,442**
Transfers to stage 1	8,441	(8,441)	-	-	**-**
Transfers to stage 2	(933)	4,583	(3,650)	-	**-**
Transfers to stage 3	(62)	(455)	517	-	**-**
Impact on transfer between stages during the period*	(4,696)	2,670	2,572	(2)	**544**
Foreign exchange and other adjustments	-	2	10	-	**12**
Write offs	(188)	(310)	(17,728)	(2,958)	**(21,184)**
Interest (provided) not recognised in the income statement	-	-	1,653	464	**2,117**
New loans originated or purchased*	1,124	-	-	4	**1,128**
Loans derecognised or repaid (excluding write offs)*	(771)	(159)	(308)	(241)	**(1,479)**
Write offs*	170	244	3,171	623	**4,208**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	(3,514)	8,466	24,083	5,005	**34,040**
Changes to contractual cash flows due to modifications not resulting in derecognition*	(601)	498	352	(176)	**73**
30 June 2023	**21,258**	**34,139**	**124,245**	**18,259**	**197,901**
Individually assessed	8,928	11,882	58,998	11,640	**91,448**
Collectively assessed	12,330	22,257	65,247	6,619	**106,453**
	21,258	**34,139**	**124,245**	**18,259**	**197,901**

* Individual components of the 'Impairment net of reversals on loans and advances to customers' (Note 12).

The impairment loss for the six months ended 30 June 2023 was driven mainly from additional net credit losses of €11 million recorded on NPEs as part of the Group's de-risking activities and additional ECL charge of €9 million following the overlays applied during the period, as explained in Note 6.2.

30. Risk management - Credit risk (continued)

30.4 Credit losses of loans and advances to customers (continued)

30 June 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
1 January	15,457	29,383	478,796	67,781	**591,417**
Transfers to stage 1	4,837	(4,837)	-	-	**-**
Transfers to stage 2	(1,355)	5,604	(4,249)	-	**-**
Transfers to stage 3	(34)	(591)	625	-	**-**
Impact on transfer between stages during the period*	(4,177)	2	5,205	(41)	**989**
Foreign exchange and other adjustments	-	-	1,406	-	**1,406**
Write offs	(398)	(295)	(100,781)	(17,522)	**(118,996)**
Interest (provided) not recognised in the income statement	-	-	7,697	1,471	**9,168**
New loans originated or purchased*	1,985	-	-	27	**2,012**
Loans derecognised or repaid (excluding write offs)*	(254)	(830)	(7,779)	(1,490)	**(10,353)**
Write offs*	380	196	6,565	734	**7,875**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	625	(3,302)	28,536	4,162	**30,021**
Changes to contractual cash flows due to modifications not resulting in derecognition*	(158)	1,685	(3,755)	(261)	**(2,489)**
30 June 2022	**16,908**	**27,015**	**412,266**	**54,861**	**511,050**
Individually assessed	6,380	12,327	63,636	4,530	**86,873**
Collectively assessed	10,528	14,688	348,630	50,331	**424,177**
	16,908	**27,015**	**412,266**	**54,861**	**511,050**

The analysis of credit losses of loans and advances to customers by business line is presented in the table below:

30 June 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Corporate and Large corporate	12,277	12,871	31,053	2,277	**58,478**
International corporate	827	1	37	5	**870**
SMEs	2,299	2,741	575	285	**5,900**
Retail					
- housing	2,111	7,144	4,307	557	**14,119**
- consumer, credit cards and other	3,231	7,791	5,294	1,224	**17,540**
Restructuring					
- corporate	13	476	9,157	9,764	**19,410**
- SMEs	229	1,115	6,042	732	**8,118**
- retail housing	117	1,245	13,778	240	**15,380**
- retail other	71	570	8,417	610	**9,668**
Recoveries					
- corporate	-	-	8,630	307	**8,937**
- SMEs	-	-	13,106	172	**13,278**
- retail housing	-	-	15,984	1,241	**17,225**
- retail other	-	-	7,673	834	**8,507**
International business unit	69	165	191	6	**431**
Wealth management	14	20	1	5	**40**
	21,258	**34,139**	**124,245**	**18,259**	**197,901**

30. Risk management - Credit risk (continued)

30.4 Credit losses of loans and advances to customers (continued)

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Corporate and Large corporate	13,997	12,096	28,951	1,498	**56,542**
International corporate	567	5	36	4	**612**
SMEs	2,444	3,009	1,998	214	**7,665**
Retail					
- housing	2,378	2,738	5,146	398	**10,660**
- consumer, credit cards and other	2,552	4,794	5,763	1,020	**14,129**
Restructuring					
- corporate	22	2,133	7,481	9,005	**18,641**
- SMEs	184	706	9,157	741	**10,788**
- retail housing	19	682	9,222	347	**10,270**
- retail other	29	536	7,309	513	**8,387**
Recoveries					
- corporate	-	-	7,917	387	**8,304**
- SMEs	-	-	11,096	288	**11,384**
- retail housing	-	-	11,937	651	**12,588**
- retail other	-	-	7,494	465	**7,959**
International business unit	73	332	65	5	**475**
Wealth management	23	10	1	4	**38**
	22,288	**27,041**	**113,573**	**15,540**	**178,442**

During the six months ended 30 June 2023 the total non-contractual write-offs recorded by the Group amounted to €11,582 thousand (30 June 2022: €98,625 thousand). The contractual amount outstanding on financial assets that were written off during the six months ended 30 June 2023 and that are still subject to enforcement activity is €100,687 thousand (31 December 2022: €972,621 thousand).

For the calculation of expected credit losses three scenarios were used; base, adverse and favourable with 50%, 30% and 20% probability respectively.

For Stage 3 customers, the base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional favourable and adverse scenarios. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by one year with reference to the baseline scenario. Under the favourable scenario, applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures.

The above assumptions are also influenced by the ongoing regulatory dialogue BOC PCL maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the estimated amount of expected credit losses of loans and advances to customers.

Sensitivity analysis
The Group has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents more than 99% of the total loan portfolio of the Group with reference date 30 June 2023 and 31 December 2022.

30. Risk management - Credit risk (continued)

30.4 Credit losses of loans and advances to customers (continued)

The Group has applied sensitivity analysis to the below parameters and the impact on the ECL, for both individually and collectively assessed ECL calculations, is presented in the table below:

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost	
	30 June 2023	31 December 2022
	€000	€000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	**1,899**	1,999
Decrease the adverse weight by 5% and increase the favourable weight by 5%	**(1,874)**	(2,077)
Increase the expected recovery period by 1 year	**5,210**	4,955
Decrease the expected recovery period by 1 year	**(4,610)**	(4,344)
Increase the collateral realisation haircut by 5%	**9,659**	11,335
Decrease the collateral realisation haircut by 5%	**(8,399)**	(8,930)
Increase in the PDs of stages 1 and 2 by 20%*	**7,808**	7,367
Decrease in the PDs of stages 1 and 2 by 20%*	**(6,687)**	(6,964)

The increase/(decrease) on ECL, for loans and advances to customers at amortised cost, is further analysed, per stage, in the table below:

	Stage 1	Stage 2	Stage 3	**Total**
30 June 2023	€000	€000	€000	**€000**
Increase the adverse weight by 5% and decrease the favourable weight by 5%	266	300	1,333	**1,899**
Decrease the adverse weight by 5% and increase the favourable weight by 5%	(278)	(263)	(1,333)	**(1,874)**
Increase the expected recovery period by 1 year	838	1,776	2,596	**5,210**
Decrease the expected recovery period by 1 year	(784)	(1,541)	(2,285)	**(4,610)**
Increase the collateral realisation haircut by 5%	1,231	2,464	5,964	**9,659**
Decrease the collateral realisation haircut by 5%	(1,033)	(1,966)	(5,400)	**(8,399)**
Increase in the PDs of stages 1 and 2 by 20%*	2,105	5,703	-	**7,808**
Decrease in the PDs of stages 1 and 2 by 20%*	(1,857)	(4,830)	-	**(6,687)**

	Stage 1	Stage 2	Stage 3	**Total**
31 December 2022	€000	€000	€000	**€000**
Increase the adverse weight by 5% and decrease the favourable weight by 5%	175	321	1,503	**1,999**
Decrease the adverse weight by 5% and increase the favourable weight by 5%	(139)	(435)	(1,503)	**(2,077)**
Increase the expected recovery period by 1 year	552	1,590	2,813	**4,955**
Decrease the expected recovery period by 1 year	(495)	(1,374)	(2,475)	**(4,344)**
Increase the collateral realisation haircut by 5%	1,036	2,747	7,552	**11,335**
Decrease the collateral realisation haircut by 5%	(842)	(2,021)	(6,067)	**(8,930)**
Increase in the PDs of stages 1 and 2 by 20%*	406	6,961	-	**7,367**
Decrease in the PDs of stages 1 and 2 by 20%*	(2,217)	(4,747)	-	**(6,964)**

*The impact on the ECL also includes the transfer between stages of the loans and advances to customers following the increase/decrease in the PD.

30. Risk management - Credit risk (continued)

30.4 Credit losses of loans and advances to customers (continued)

The sensitivity analysis performed on the collateral realisation haircut and its impact on the ECL by business line is presented in the table below:

	Increase the collateral realisation haircut by 5%	**Decrease the collateral realisation haircut by 5%**	Increase the collateral realisation haircut by 5%	Decrease the collateral realisation haircut by 5%
	30 June 2023	**30 June 2023**	31 December 2022	31 December 2022
	€000	**€000**	€000	€000
Corporate and Large corporate	**2,415**	**(2,080)**	2,322	(1,478)
International corporate	**109**	**(91)**	68	(30)
SMEs	**401**	**(331)**	487	(409)
Retail				
- housing	**1,163**	**(986)**	1,260	(1,085)
- consumer, credit cards and other	**421**	**(379)**	527	(457)
Restructuring				
- corporate	**742**	**(882)**	1,253	(1,333)
- SMEs	**401**	**(387)**	628	(633)
- retail housing	**832**	**(728)**	824	(738)
- retail other	**270**	**(238)**	324	(287)
Recoveries				
- corporate	**511**	**(547)**	720	(665)
- SMEs	**904**	**(785)**	948	(819)
- retail housing	**1,027**	**(706)**	1,378	(690)
- retail other	**441**	**(243)**	540	(255)
International business unit	**21**	**(16)**	53	(49)
Wealth management	**1**	**-**	3	(2)
	9,659	**(8,399)**	11,335	(8,930)

30.5 Currency concentration of loans and advances to customers

The following table presents the currency concentration of the Group's loans and advances at amortised cost.

	30 June 2023	31 December 2022
Gross loans at amortised cost	**€000**	€000
Euro	**9,502,915**	9,456,220
US Dollar	**369,495**	334,663
British Pound	**90,278**	89,244
Russian Rouble	**333**	312
Swiss Franc	**31,385**	35,430
Other currencies	**929**	1,466
	9,995,335	9,917,335

30.6 Forbearance/Restructuring

Forborne/restructured loans are those loans that have been modified because the borrower is considered unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower with the ability to service the debt or refinance the contract, either partially or fully.

30. Risk management - Credit risk (continued)

30.6 Forbearance/Restructuring (continued)

The practice of extending forbearance/restructuring measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group.

Forborne/restructured loans and advances are those facilities for which the Group has modified the repayment programme (e.g. provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest).

For an account to qualify for forbearance/restructuring it must meet certain criteria including the viability of the customer. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be allowed in specific situations in response to legal or regulatory requirements.

Forbearance/restructuring activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Forbearance/restructuring options may be of a short or long-term nature or a combination thereof. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

i. Suspension of capital or capital and interest: granting to the borrower a grace period in the payment of capital (i.e. during this period only interest is paid) or capital and interest, for a specific period of time.
ii. Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
iii. Arrears and/or interest capitalisation: capitalisation of the arrears and of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.

Long-term restructuring solutions can include the following:

i. Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
ii. Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
iii. Sale of Assets: Part of the restructuring can be the agreement with the borrower for immediate or over time sale of assets (mainly real estate) to reduce borrowing.
iv. Modification of existing terms of previous decisions: In the context of the new sustainable settlement/restructuring solution, review any terms of previous decisions that may not be met.
v. Consolidation/refinancing of existing facilities: In cases where the borrower maintains several separate loans with different collaterals, these can be consolidated and a new repayment schedule can be set and the new loan can be secured with all existing collaterals.
vi. Hard Core Current Account Limit: In such cases a loan with a longer repayment may be offered to replace / reduce the current account limit.
vii. Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured to a sustainable repayment program. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro rata (based on the actual repayment of the sustainable part) or restructured.
viii. Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
ix. Liquidation Collateral: An agreement between BOC PCL and a borrower for the voluntary sale of mortgaged assets, for partial or full repayment of the debt.
x. Currency Conversion: This solution is provided to match the credit facility currency and the borrower's income currency.

30. Risk management - Credit risk (continued)

30.6 Forbearance/Restructuring (continued)

xi. Additional Financing: This solution can be granted, simultaneously with the restructuring of the existing credit facilities of the borrower, to cover any financing gap.
xii. Partial or total write off: This solution corresponds to the Group forfeiting the right to legally recover part or the whole of the amount of debt outstanding by the borrower.
xiii. Debt/equity swaps: debt restructuring that allows partial or full repayment of the debt in exchange of obtaining an equivalent amount of equity by the Group, with the remaining debt right sized to the cash flows of the borrower to allow repayment. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
xiv. Debt/asset swaps: agreement between the Group and the borrower to voluntarily transfer the mortgaged asset or other immovable property to the Group, to partially or fully repay the debt. Any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.

The loans forborne continue to be classified as Stage 3 in the case they are performing forborne exposures under probation for which additional forbearance measures are extended, or performing forborne exposures, previously classified as NPEs that present more than 30 days past due within the probation period.

Forbearance modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements, are not regarded as sufficient to categorise the facility as credit impaired, as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

The forbearance characteristic contributes in two specific ways for the calculation of lifetime ECL for each individual facility. Specifically, it is taken into consideration in the scorecard development, where, if this characteristic is identified as statistically significant, it affects negatively the rating of each facility. It also contributes in the construction through the cycle probability of default and cure curves, where, when feasible, a specific curve for the forborne products is calculated and assigned accordingly.

The below table presents the movement of the Group's forborne loans and advances to customers measured at amortised cost.

	30 June 2023	31 December 2022
	€000	€000
1 January	**1,106,298**	1,469,182
New loans and advances forborne in the period/year	**18,467**	130,547
Loans no longer classified as forborne and repayments	**(418,125)**	(241,739)
Write off of forborne loans and advances	**(3,698)**	(77,357)
Interest accrued on forborne loans and advances	**28,095**	57,795
Foreign exchange adjustments	**(47)**	3,115
Derecognition of Helix 3 and Sinope portfolios	**-**	(235,245)
30 June/31 December	**730,990**	1,106,298

The forborne loans classification is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. The criteria are set out in the EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

The below tables present the Group's forborne loans and advances to customers by staging, economic activity and business line classification, as well as the ECL allowance and tangible collateral held for such forborne loans.

30. Risk management - Credit risk (continued)

30.6 Forbearance/Restructuring (continued)

	30 June 2023 €000	31 December 2022 €000
Stage 1	**-**	-
Stage 2	**517,449**	857,356
Stage 3	**187,020**	215,730
POCI	**26,521**	33,212
	730,990	1,106,298

Fair value of collateral

	30 June 2023 €000	31 December 2022 €000
Stage 1	**-**	-
Stage 2	**493,444**	818,138
Stage 3	**147,787**	172,501
POCI	**24,600**	30,188
	665,831	1,020,827

The fair value of collateral presented above has been computed to the extent that the collateral mitigates credit risk.

Credit risk concentration

By economic activity	30 June 2023 €000	31 December 2022 €000
Trade	**30,420**	41,038
Manufacturing	**13,612**	17,080
Hotels and catering	**132,823**	282,460
Construction	**143,637**	245,695
Real estate	**97,245**	145,840
Private individuals	**224,242**	279,934
Professional and other services	**62,616**	76,135
Shipping	**-**	-
Other sectors	**26,395**	18,116
	730,990	1,106,298

30. Risk management - Credit risk (continued)

30.6 Forbearance/Restructuring (continued)

30 June 2023 By business line	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Corporate and Large corporate	-	367,669	48,720	2,915	**419,304**
SMEs	-	29,320	1,333	631	**31,284**
Retail					
- housing	-	54,408	14,021	1,721	**70,150**
- consumer, credit cards and other	-	14,378	5,676	166	**20,220**
Restructuring					
- corporate	-	18,975	6,422	10,169	**35,566**
- SMEs	-	6,081	8,600	2,042	**16,723**
- retail housing	-	18,453	27,422	1,935	**47,810**
- retail other	-	4,385	7,369	387	**12,141**
Recoveries					
- corporate	-	-	5,132	383	**5,515**
- SMEs	-	-	12,266	496	**12,762**
- retail housing	-	-	38,193	4,680	**42,873**
- retail other	-	-	10,830	995	**11,825**
International business unit	-	3,152	1,036	1	**4,189**
Wealth management	-	628	-	-	**628**
	-	**517,449**	**187,020**	**26,521**	**730,990**

31 December 2022 By business line	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Corporate and Large corporate	-	628,104	50,688	5,590	**684,382**
SMEs	-	72,727	869	878	**74,474**
Retail					
- housing	-	62,312	20,502	2,505	**85,319**
- consumer, credit cards and other	-	20,207	7,653	1,084	**28,944**
Restructuring					
- corporate	-	31,637	6,060	10,143	**47,840**
- SMEs	-	7,240	11,918	1,844	**21,002**
- retail housing	-	19,912	30,649	2,755	**53,316**
- retail other	-	4,924	9,021	457	**14,402**
Recoveries					
- corporate	-	-	5,837	442	**6,279**
- SMEs	-	-	14,449	1,186	**15,635**
- retail housing	-	-	44,191	5,049	**49,240**
- retail other	-	-	12,705	1,278	**13,983**
International business unit	-	10,293	1,188	1	**11,482**
	-	**857,356**	**215,730**	**33,212**	**1,106,298**

30. Risk management - Credit risk (continued)

30.6 Forbearance/Restructuring (continued)

ECL allowance

	30 June 2023 €000	31 December 2022 €000
Stage 1	**-**	-
Stage 2	**13,102**	13,939
Stage 3	**73,271**	68,557
POCI	**11,641**	11,259
	98,014	93,755

31. Risk management - Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, foreign currency exchange rates, property and security prices. The Market and Liquidity Risk department is responsible for monitoring the risk on financial instruments resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk from counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

Interest rate risk refers to the current or prospective risk to Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis, where the assets, liabilities and off-balance sheet items are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of one basis point (PV01) is also calculated. Interest rate risk is managed through a 1-Year Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group regulatory capital and as a percentage of the net interest income. There are overall limits as well as different limits for the Euro and the US Dollar.

Sensitivity analysis
The table below sets out the impact on the Group’s net interest income, over a one-year period, from reasonably possible changes in the interest rates of the Euro and the US Dollar, being the main currencies, using the assumption of the prevailing market risk policy for the current and the comparative period:

31. Risk management - Market risk (continued)

Currency	Interest Rate Scenario	Impact on Net Interest Income in €000	
		30 June 2023 (60 bps for Euro and 75 bps for US Dollar)	**31 December 2022 (60 bps for Euro and 75 bps for US Dollar)**
All	Parallel up	67,248	73,126
All	Parallel down	(73,993)	(77,043)
All	Steepening	(52,944)	(56,569)
All	Flattening	55,446	59,657
All	Short up	65,839	70,381
All	Short down	(69,914)	(73,896)
Euro	Parallel up	66,600	71,829
Euro	Parallel down	(72,536)	(75,343)
Euro	Steepening	(52,115)	(55,812)
Euro	Flattening	55,162	59,132
Euro	Short up	65,230	69,180
Euro	Short down	(68,587)	(72,216)
US Dollar	Parallel up	648	1,298
US Dollar	Parallel down	(1,457)	(1,700)
US Dollar	Steepening	(829)	(757)
US Dollar	Flattening	284	525
US Dollar	Short up	609	1,202
US Dollar	Short down	(1,327)	(1,680)

31. Risk management - Market risk (continued)

The above sensitivities incorporate assumptions on the pass-through change of time deposits.

The table below sets out the impact on the Group's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines.

		Impact on Equity in €000	
Currency	**Interest Rate Scenario**	**30 June 2023 (60 bps for Euro and 75 bps for US Dollar)**	**31 December 2022 (60 bps for Euro and 75 bps for US Dollar)**
All	Parallel up	16,609	31,739
All	Parallel down	(7,861)	(68,581)
All	Steepening	(6,201)	11,884
All	Flattening	1,122	369
All	Short up	5,947	27,212
All	Short down	(17,438)	(35,032)
Euro	Parallel up	27,669	54,878
Euro	Parallel down	(1,962)	(59,502)
Euro	Steepening	(6,671)	23,018
Euro	Flattening	2,960	526
Euro	Short up	7,726	47,696
Euro	Short down	(13,089)	(28,040)
US Dollar	Parallel up	5,549	8,599
US Dollar	Parallel down	(5,899)	(9,079)
US Dollar	Steepening	940	750
US Dollar	Flattening	(358)	212
US Dollar	Short up	4,167	6,727
US Dollar	Short down	(4,349)	(6,992)

The aggregation of the impact on equity was performed as per the EBA guidelines by adding the negative and 50% of the positive impact of each scenario.

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at FVPL (including investments held for trading) and in the fair value of derivative financial instruments impacting the profit and loss of the Group.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified at FVOCI.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

31. Risk management - Market risk (continued)

Parallel change in interest rates ((increase)/decrease in net interest income)	**Impact on profit/loss before tax**	**Impact on equity**
30 June 2023	**€000**	**€000**
+0.75% for US Dollar +0.6% for Euro +0.4% for British Pound	**(651)**	**(402)**
-0.75% for US Dollar -0.6% for Euro -0.4% for British Pound	**651**	**402**

Parallel change in interest rates ((increase)/decrease in net interest income)	**Impact on profit/loss before tax**	**Impact on equity**
	€000	**€000**
31 December 2022		
+0.75% for US Dollar +0.6% for Euro +0.4% for British Pound	(466)	(394)
-0.75% for US Dollar -0.6% for Euro -0.4% for British Pound	466	386

Interest rate benchmark reform
The LIBOR and the EURIBOR (collectively referred to as IBORs) have been the subject of international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or cease to exist entirely or have other consequences that cannot be predicted.

Regarding LIBOR reform, regulators and industry working groups have identified alternative rates to transition to. In March 2021 the Financial Conduct Authority (FCA) confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative of the underlying market they intended to measure:

i. immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1 week and 2 month US dollar settings; and
ii. immediately after 30 June 2023, in the case of the remaining US dollar settings.

In September 2022, the FCA confirmed that the publication of 1-month and 6-month synthetic GBP LIBOR will be required until the end of March 2023, after which date these settings permanently ceased. On 3 April 2023, the FCA confirmed that the 3-month synthetic GBP LIBOR setting is expected to cease to be published at the end of March 2024.

Also, under their new use restriction power they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. On 3 April 2023, the FCA announced its decision to require IBA to continue to publish the 1-month, 3-month and 6-month USD LIBOR settings using an unrepresentative synthetic basis and it is expected to cease to be published at the end of September 2024. They have decided to permit the use of these settings in all legacy contracts except cleared derivatives.

How the Group is managing the transition to alternative benchmark rates
BOC PCL established a project to manage the transition to alternative interest rate benchmarks with the Director of Treasury as the project owner and with oversight from a dedicated Benchmark Steering Committee. The main divisions involved in the project at the highest level are the Legal Department, Treasury, Risk Management, Finance, Information Technology (IT), Operations and the business lines. The Assets and Liabilities Committee (ALCO) monitors the project.

The Group's transition project also involved the drawing up of appropriate fallback provisions for LIBOR linked contracts and transition mechanisms in its floating rate assets and liabilities with maturities after 2021.

31. Risk management - Market risk (continued)

For the legacy non-cleared derivatives exposures, the Group has adhered to the International Swaps and Derivatives Association (ISDA) protocol which came into effect in January 2021, while for cleared derivatives, BOC PCL adopted the market wide standardised approach to be followed by the relevant clearing house.

The Group proactively engaged with its customer base and market counterparties for the amendment of substantially all impacted LIBOR contracts for transitioning to alternative rates. Those legacy credit facilities in CHF for which the contract was not amended by the first interest period commencing in 2022 ('tough legacy'), have been transitioned to the statutory rate provided by EU legislation. The Group has also transitioned its tough legacy JPY and GBP credit facilities to alternative rates by notifying its customer base accordingly and reserving the right to use a statutory rate provided by EU legislation in case such a rate is nominated in the future.

The Group has also made the necessary arrangements to transition its tough legacy USD credit facilities to alternative rates and notified its customer base accordingly and reserving the right to use a statutory rate provided by EU legislation in case such a rate is nominated in the future.

The Group has also engaged in client communication to inform customers and ensure a smooth transition of credit facilities to RFRs. New RFR lending products have also been introduced and adopted across the Group’s key currencies.

BOC PCL has dedicated teams in place to support the transition and continuously assess, monitor and dynamically manage risks arising from the transition when required.

The Group has also been actively monitoring any market and regulatory developments published by regulatory bodies, as well as by relevant Working Groups across various jurisdictions.

The Group will continue to assess, monitor and dynamically manage risks, and implement specific mitigating controls when required, progressing towards an orderly transition to alternative benchmarks.

The following table summarises the significant non-derivative exposures impacted by interest rate benchmark reform which have yet to transition as at 30 June 2023 and as at 31 December 2022 to the replacement benchmark rate at the respective date:

30 June 2023	**USD LIBOR**	**Other LIBOR**	**Total**
Non-derivative financial assets	**€000**	**€000**	**€000**
Loans and advances to customers	210,761	145	**210,906**
Loans and advances to banks	-	3,276	**3,276**
Total	**210,761**	**3,421**	**214,182**
Non-derivative financial liabilities			
Deposits by banks	-	281	**281**
Total	**-**	**281**	**281**

31 December 2022	**USD LIBOR**	**Other LIBOR**	**Total**
Non-derivative financial assets	**€000**	**€000**	**€000**
Loans and advances to customers	283,509	316	**283,825**
Loans and advances to banks	26,607	4,297	**30,904**
Total	**310,116**	**4,613**	**314,729**
Non-derivative financial liabilities			
Deposits by banks	7,416	248	**7,664**
Total	**7,416**	**248**	**7,664**

EURIBOR is in compliance with the EU Benchmarks Regulation and can continue to be used as a benchmark interest rate for existing and new contracts. The Group therefore, does not consider that Group’s exposure to EURIBOR is affected by the BMR reform.

31. Risk management - Market risk (continued)

For derivatives in hedging relationships subject to IBOR reform refer to Note 16.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The impact on equity arises mainly from the impact of hedging instruments used to hedge part of the net assets of the subsidiaries. At Group level, there is an approximately equal and opposite impact on equity from the revaluation of the net assets of the foreign operations of the Group.

Price risk

Equity securities price risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

Debt securities price risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes mainly for fixed rate securities. The Group invests a significant part of its liquid assets in highly rated securities. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 30 June 2023 was A2 (31 December 2022: A2). The average rating excluding the Cyprus Government bonds and non-rated transactions as at 30 June 2023 was Aa2 (31 December 2022: Aa2).

Property price risk

A significant part of the Group's loan portfolio is secured by real estate, the majority of which is located in Cyprus. Furthermore, the Group holds a substantial number of properties mainly arising from loan restructuring activities; the enforcement of loan collateral and debt for asset swaps. These properties are held by the Group primarily as stock of properties and some are held as investment properties.

Property risk is the risk that the Group's business and financial position will be affected by adverse changes in the demand for, and prices of, real estate, or by regulatory capital requirements relating to increased charges with respect to the stock of properties held.

32. Risk management - Liquidity and funding risk

Liquidity Risk

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at high cost or sell assets at a discount to fully and promptly satisfy its obligations.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment and unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management has adopted the Liquidity Policy of managing assets, taking liquidity into consideration and monitoring cash flows and liquidity on a regular basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite which defines the level of risk at which the Group should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews at frequent intervals the liquidity position of the Group.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity risk across the Group.

32. Risk management - Liquidity and funding risk (continued)

The Treasury Division is responsible for liquidity management at Group level, ensuring compliance with internal policies and regulatory liquidity requirements and providing direction as to the actions to be taken regarding liquidity needs. Treasury Division assesses on a continuous basis the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

Liquidity is also monitored by Market and Liquidity Risk department, to ensure compliance with both internal policies and limits, and with the limits set by the regulatory authorities. Market and Liquidity Risk department reports the liquidity position to ALCO at least monthly. It also provides the results of various stress tests to ALCO at least quarterly.

Liquidity is monitored and managed on an ongoing basis through:
- (i) Risk appetite: establishes the Group's Risk Appetite Statement together with the appropriate limits for the management of all risks including liquidity risk.
- (ii) Liquidity Policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and reporting on liquidity and funding.
- (iii) Liquidity limits: a number of internal and regulatory limits are monitored on a regular basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags and take action when the ratios deteriorate.
- (iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Group. These are designed to immediately identify the emergence of increased liquidity risk so as to maximise the time available to execute appropriate mitigating actions.
- (v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively identified and managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.
- (vi) Recovery Plan: the Group has developed a Recovery Plan (RP), the key objectives of which are, among others, to set key Recovery and Early Warning Indicators and to set in advance a range of recovery options to enable the Group to be adequately prepared to respond to stressed conditions and restore the Group's liquidity position.

Monitoring process

Daily
The daily monitoring of the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market and Liquidity Risk department prepares a daily report analysing the internal liquidity buffer and comparing it to the previous day's buffer. Results are made available to members of the Risk and Treasury Divisions. In addition, Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), unpledged cash and nostro current accounts, as well as money market placements up to the stress horizon, available ECB credit line and market value net of haircut of unencumbered/available liquid bonds.

Market and Liquidity Risk department also prepares daily stress testing for bank specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable BOC PCL to survive a twelve-month stress period, including capacity to raise funding under all scenarios.

Moreover, an intraday liquidity stress test takes place to ensure that the Group maintains sufficient liquidity buffer in immediately accessible form, to enable it to meet the stressed intraday payments.

The designing of the stress tests follows guidance and is based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA. In addition, it takes into account SREP recommendations, as well as the Annual Risk Identification Process of the Group. The stress test assumptions are reviewed on an annual basis and approved by the Board through its Risk Committee. Whenever it is considered appropriate to amend the assumptions during the year, approval is requested from ALCO and the Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off balance sheet commitments, marketable securities, own issue covered bond, additional credit claims, interbank takings and cash collateral for derivatives and repos.

Weekly
Market and Liquidity Risk department prepares a report indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

32. Risk management - Liquidity and funding risk (continued)

Monthly
Market and Liquidity Risk department prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements and submits them to the ALCO, the Executive Committee and the Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates, the percentage of International business unit deposits over total deposits and the percentage of instant access deposits are also presented. The liquidity mismatch in the form of the Maturity Ladder report (for both contractual and behavioural flows) is presented to ALCO and the resulting mismatch between assets and liabilities is compared to previous month's mismatch.

Market and Liquidity Risk department also reports the Liquidity Coverage Ratio (LCR) and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB on a monthly basis.

Quarterly
The results of the stress testing scenarios are reported to ALCO and Risk Committee quarterly as part of the quarterly Internal Liquidity Adequacy Assessment Process (ILAAP) review. Market and Liquidity Risk department reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly.

Annually
The Group prepares on an annual basis its ILAAP package. The ILAAP package provides a holistic view of the Group's liquidity adequacy under normal and stress conditions. Within ILAAP, the Group evaluates its liquidity risk in the context of established policies and processes for the identification, measurement, management and monitoring of liquidity risk as implemented by the institution.

Market and Liquidity Risk department also prepares an annual liquidity report, run and submitted for five consecutive days to the ECB. The report includes information on deposits breakdown, cash flow information, survival period, LCR ratio, rollover of funding, funding gap (through the Maturity Ladder analysis), concentration of funding and collateral details. It concludes on the overall liquidity position of BOC PCL and describes the measures implemented and to be implemented in the short-term to improve liquidity position if needed.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan (LCP) for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the Crisis Management Committee for LCP (CMC-LCP). The LCP sets out the members of this committee and a series of the possible actions that can be taken. The LCP is reviewed and tested at least annually.

Liquidity ratios

The Group LCR is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. The minimum requirement is 100%. The Group also calculates its NSFR as per Capital Requirements Regulation II (CRR II), with the limit set at 100%. The NSFR is the ratio of available stable funding to required stable funding. NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

Funding risk

Funding risk is the risk that the Group does not have sufficiently stable sources of funding or access to sources of funding may not always be available at a reasonable cost and thus the Group may fail to meet its obligations, including regulatory ones (e.g. MREL).

Main sources of funding

As at 30 June 2023, the Group's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations. Wholesale funding is also becoming an important source of funding, following the refinancing of the Tier 2 for €300 million in April 2021, the issuance of senior preferred debt of €300 million in June 2021, the refinancing of AT1 for €220 million in June 2023 and the issuance of senior preferred debt of €350 million in July 2023 (Note 37).

With respect to TLTRO III operations, the carrying value of the ECB funding as at 30 June 2023 (after the early repayment of €1 billion within December 2022), was €2,004 million (31 December 2022: €1,977 million).

32. Risk management - Liquidity and funding risk (continued)

As at 30 June 2023, the wholesale funding nominal amount was €836 million (31 December 2022: €820 million). This includes funding raised from the wholesale debt capital markets of €236 million AT1 as described in Note 25, €300 million Tier 2 issued in April 2021 and €300 million senior preferred debt issued in June 2021.

Funding to subsidiaries

The funding provided by BOC PCL to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

The subsidiaries may proceed with dividend distributions in the form of cash to BOC PCL, provided that they are not in breach of their regulatory capital and liquidity requirements, where applicable.

Collateral requirements and other disclosures

Collateral requirements
The carrying values of the Group's encumbered assets as at 30 June 2023 and 31 December 2022 are summarised below:

	30 June 2023	31 December 2022
	€000	€000
Cash and other liquid assets	**69,345**	73,557
Investments	**257,147**	284,343
Loans and advances	**3,334,668**	3,273,369
	3,661,160	3,631,269

Cash is mainly used to cover collateral required for derivatives, trade finance transactions and guarantees issued. It may also be used as part of the supplementary assets for the covered bond.

As at 30 June 2023 and 31 December 2022 investments are mainly used as collateral for ECB funding or as supplementary assets for the covered bond.

Loans and advances indicated as encumbered as at 30 June 2023 and 31 December 2022 are mainly used as collateral for funding from the ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount of €1,015 million as at 30 June 2023 (31 December 2022: €1,007 million) in Cyprus, pledged as collateral for the covered bond issued by BOC PCL in 2011 under its Covered Bond Programme. Furthermore, as at 30 June 2023 housing loans of a nominal amount of €2,310 million (31 December 2022: €2,287 million) in Cyprus, are pledged as collateral for funding from the ECB (Note 21).

BOC PCL maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC. Under the Covered Bond Programme, BOC PCL has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. The Covered Bonds have a maturity date of 12 December 2026 and pay an interest rate of 3-months Euribor plus 1.25% on a quarterly basis. On 9 August 2022, BOC PCL proceeded with an amendment to the terms and conditions of the covered bonds following the implementation of Directive (EU) 2019/2162 in Cyprus. The covered bonds are listed on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by BOC PCL. The covered bonds are eligible collateral for the Eurosystem credit operations and are placed as collateral for accessing funding from the ECB.

Other disclosures
Deposits by banks include balances of €25,003 thousand as at 30 June 2023 (31 December 2022: €29,100 thousand) relating to borrowings from international financial and similar institutions for funding, aiming to facilitate access to finance and improve funding conditions for small or medium sized enterprises, active in Cyprus. The carrying value of the respective loans and advances granted to such enterprises serving this agreement amounts to €47,783 thousand as at 30 June 2023 (31 December 2022: €55,152 thousand).

33. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain healthy capital adequacy ratios to cover the risks of its business and support its strategy and maximise shareholders' value.

The capital adequacy framework, as in force, was incorporated through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) which came into effect on 1 January 2014 with certain specified provisions implemented gradually. The CRR and CRD transposed the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage for credit institutions. It is directly applicable in all EU member states. CRD governs access to deposit taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, member states were required to transpose the CRD into national law and national regulators were allowed to impose additional capital buffer requirements.

On 27 June 2019, the revised rules on capital and liquidity (Regulation (EU) 2019/876 (CRR II) and Directive (EU) 2019/878 (CRD V)) came into force. As an amending regulation, the existing provisions of CRR apply unless they are amended by CRR II. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities (MREL)), but most changes became effective as of June 2021. The key changes introduced consist of, among others, changes to qualifying criteria for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement (as defined in the CRR) and a Net Stable Funding Ratio (NSFR).

The amendments that came into effect on 28 June 2021 are in addition to those introduced in June 2020 through Regulation (EU) 2020/873, which among other, brought forward certain CRR II changes in light of the COVID-19 pandemic. The main adjustments of Regulation (EU) 2020/873 that had an impact on the Group's capital ratio relate to the acceleration of the implementation of the new SME discount factor (lower RWAs), extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1 allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets and phasing-in this starting from 2022 (phasing-in at 25% in 2022 and 50% in 2023) and advancing the application of prudential treatment of software assets as amended by CRR II (which came into force in December 2020). In addition, Regulation (EU) 2020/873 introduced a temporary treatment of unrealized gains and losses on exposures to central governments, to regional governments or to local authorities measured at fair value through other comprehensive income which the Group elected to apply and implemented from the third quarter of 2020. This temporary treatment was in effect until 31 December 2022.

The Group and BOC PCL have complied with the minimum capital requirements (Pillar I and Pillar II).

In October 2021, the European Commission adopted legislative proposals for further amendments to the CRR, CRD and the BRRD (the '2021 Banking Package'). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state. The European Council's proposal on CRR and CRD was published on 8 November 2022. During February 2023, the European Parliament's ECON Committee voted to adopt Parliament's proposed amendments to the Commission's proposal, and the 2021 Banking Package is currently in the final stage of the EU legislative process. It is expected that the 2021 Banking Package will come in force on 1 January 2025; and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

The insurance subsidiaries of the Group, the General Insurance of Cyprus Ltd and EuroLife Ltd, comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO) complies with the minimum capital adequacy ratio requirements. In February 2023, the activities of the regulated UCITS management company of the Group, BOC Asset Management Ltd, were absorbed by CISCO and BOC Asset Management Ltd was dissolved without liquidation. The payment services subsidiary of the Group, JCC Payment Services Ltd, complies with the regulatory capital requirements.

Additional information on regulatory capital is disclosed in 'Risk and Capital Management Report', which is included in the Interim Financial Report 2023.

34. Related party transactions

Related parties of the Group include associates and joint ventures, key management personnel, members of the Board of Directors and their connected persons. Connected persons for the purpose of this disclosure include spouses, minor/dependent children and companies in which the directors/key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Fees and emoluments of members of the Board of Directors and key management personnel

	Six months ended 30 June	
	2023	2022
Directors' emoluments	**€000**	€000
Executives		
Salaries and other short-term benefits	**530**	523
Employer's contributions	**36**	35
Retirement benefit plan costs	**47**	44
Share-based benefits	**114**	-
	727	602
Non-executives		
Fees	**568**	663
Total directors' emoluments	**1,295**	1,265
Key management personnel emoluments		
Salaries and other short-term benefits	**1,530**	1,397
Employer's contributions	**176**	163
Retirement benefit plan costs	**133**	105
Share-based benefits	**197**	**-**
Total key management personnel emoluments	**2,036**	1,665
Total	**3,331**	2,930

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company and its subsidiaries, as well as fees as members of committees of the Board of Directors.

Key management personnel
The emoluments of key management personnel include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and the emoluments of other members of the Senior Management team (Extended EXCO) (prior to the change in the Group organisational structure, in 2022 the key management personnel included those members of the management team who reported directly to the Chief Executive Officer or to the Deputy Chief Executive Officer & Chief of Business).

Aggregate amounts outstanding and additional transactions

The tables below show the deposits, loans and advances and other credit balances held by the members of the Board of Directors and key management personnel and their connected persons, as at the balance sheet date.

	30 June 2023	31 December 2022
Loans and advances	**€000**	€000
- members of the Board of Directors and key management personnel	**2,149**	2,296
- connected persons	**653**	681
	2,802	2,977
Deposits		
- members of the Board of Directors and key management personnel	**4,428**	5,534
- connected persons	**3,179**	3,178
	7,607	8,712

34. Related party transactions (continued)

The above table does not include period/year-end balances of members of the Board of Directors and key management personnel and their connected persons who resigned during the period/year, nor balances of customers that do not meet the definition of connected persons as at the reporting periods.

The aggregate expected credit loss allowance on the above loans and credit facilities is below €16 thousand as at 30 June 2023 (31 December 2022: below €6 thousand). All principal and interest that has fallen due on these loans or credit facilities has been paid.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions, including interest rates, with customers of a similar credit standing. A number of loans and advances have been extended to key management personnel on the same terms as those applicable to the rest of the Group's employees and to their connected persons on the same terms as those of customers.

The table below discloses interest, commission and insurance premium income, as well as other transactions and expenses with the members of the Board of Directors, key management personnel and their connected persons for the reference period.

	Six months ended 30 June	
	2023	2022
	€000	€000
Interest income for the period	**49**	29
Interest expense for the period	**2**	-
Commission income for the period	**1**	3
Insurance premium income for the period	**236**	206
Subscriptions and insurance expenses for the period	**381**	488

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

During the six months ended 30 June 2022 connected persons of key management personnel transacted with REMU for the purchase of a property amounting to €58 thousand. The transaction was made on normal business terms as for comparable transactions with third parties.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €141 thousand as at 30 June 2023 (31 December 2022: €120 thousand).

There were also contingent liabilities and commitments to key management personnel and their connected persons amounting to €1,429 thousand as at 30 June 2023 (31 December 2022: €1,227 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and their connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 30 June 2023 amounted to €1,744 thousand (31 December 2022: €1,212 thousand).

During the six months ended 30 June 2023 premiums of €89 thousand (30 June 2022: €94 thousand) and nil claims (30 June 2022: €20 thousand) were paid by/to the members of the Board of Directors of the Company and their connected persons to/from the insurance subsidiaries of the Group.

There were no other transactions during the six months ended 30 June 2023 and the six months ended 30 June 2022 with connected persons of the current members of the Board of Directors or with any members who resigned during the period/year.

35. Group companies

The main subsidiary companies and branches included in the Consolidated Financial Statements of the Group, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 30 June 2023 are:

35. **Group companies** (continued)

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Holdings Public Limited Company	Ireland	Holding company	n/a
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	100
EuroLife Ltd	Cyprus	Life insurance	100
General Insurance of Cyprus Ltd	Cyprus	Non-life insurance	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking and brokerage and management administration and safekeeping of UCITS Units	100
Jinius Ltd	Cyprus	Digital Economy Platform	100
LCP Holdings and Investments Public Ltd	Cyprus	Investments in securities and participations in companies and schemes that are active in various business sectors and projects	67
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
Bank of Cyprus Public Company Ltd (branch of BOC PCL)	Greece	Administration of guarantees and holding of real estate properties	n/a
BOC Asset Management Romania S.A.	Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Fortuna Astrum Ltd	Serbia	Problem asset management company	100

35. Group companies (continued)

In December 2022 the Company incorporated Jinius Ltd, a 100% subsidiary, which has been set up to provide and administrate a Digital Economy Platform. As at 31 December 2022 this subsidiary was inactive and in the six months ended 30 June 2023 the activities of BOC PCL in relation to the Digital Economy Platform were transferred to Jinius Ltd. Jinius Ltd is 100% subsidiary of BOC PCL as at 30 June 2023.

In February 2023, the Group proceeded with a restructuring of its investment banking and brokerage activities through the absorption by CISCO of BOC Asset Management Ltd's activities. BOC Asset Management Ltd was subsequently dissolved.

In addition to the above companies, as at 30 June 2023 BOC PCL had 100% shareholding in the companies listed below, whose activity is the ownership and management of immovable property:

Cyprus: Hamura Properties Ltd, Tolmeco Properties Ltd, Dilero Properties Ltd, Pelika Properties Ltd, Cobhan Properties Ltd, Ramendi Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Cranmer Properties Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, EuroLife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Edoric Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Astromeria Properties Ltd, Regetona Properties Ltd, Camela Properties Ltd, Fareland Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bonsova Properties Ltd, Thermano Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Maledico Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Coeval Properties Ltd, Finevo Properties Ltd, Mazima Properties Ltd, Nigora Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Odolo Properties Ltd, Calandomo Properties Ltd, Molemo Properties Ltd, Samilo Properties Ltd, Sendilo Properties Ltd, Baleland Properties Ltd, Alezia Properties Ltd, Zenoplus Properties Ltd, Alepar Properties Ltd, Enelo Properties Ltd, Monata Properties Ltd, Vertilia Properties Ltd, Amary Properties Ltd, Aparno Properties Ltd, Lomenia Properties Ltd, Midelox Properties Ltd, Montira Properties Ltd, Orilema Properties Ltd and Philiki Ltd.

Romania: Otherland Properties Dorobanti SRL, Green Hills Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 30 June 2023 BOC PCL had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd, Petrassimo Properties Ltd and Gosman Properties Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services.

At 30 June 2023 BOC PCL had 100% shareholding in BOC Terra AIF V.C.I Plc which is a real estate alternative investment fund, currently inactive.

At 30 June 2023 BOC PCL had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Holstone Properties Ltd, Cramonco Properties Ltd, Carilo Properties Ltd, Gelimo Properties Ltd, Rifelo Properties Ltd, Avaleto Properties Ltd, Larizemo Properties Ltd and Olisto Properties Ltd.

In addition, BOC PCL holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Battersee Properties Ltd, Bonayia Properties Ltd, Janoland Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Zunimar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafield Properties Ltd and Hydrobius Ltd.

35. Group companies (continued)

BOC PCL also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Paneuropean Ltd, Nelcon Transport Co. Ltd, Iperi Properties Ltd, CYCMC IV Ltd, Prodino Properties Ltd, Thryan Properties Ltd, Canosa Properties Ltd, Ensolo Properties Ltd, Homirova Properties Ltd and Settle Cyprus Ltd.

Greece: Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method. All companies listed above have share capital consisting of ordinary shares.

Acquisitions of subsidiaries

During the six months ended 30 June 2023 and during the year ended 31 December 2022 there were no acquisitions of subsidiaries.

Dissolution and disposal of subsidiaries

There were no material disposals of subsidiaries during the six months ended 30 June 2023. Salecom Ltd, Romaland Properties Ltd, Trecoda Properties Ltd, Weinco Properties Ltd and Cyprialife Ltd were dissolved during the six months ended 30 June 2023. Thelemic Properties Ltd, Arlona Properties Ltd, Tebane Properties Ltd and Nivamo Properties Ltd were disposed of during the six months ended 30 June 2023.

As at 30 June 2023, the following subsidiaries were in the process of dissolution or in the process of being struck off: Fantasio Properties Ltd, Demoro Properties Ltd, Bramwell Properties Ltd, Blindingqueen Properties Ltd, Fairford Properties Ltd, Sylvesta Properties Ltd, Battersee Real Estate SRL, Aktilo Properties Ltd, Stormino Properties Ltd, Tavoni Properties Ltd, Ameleto Properties Ltd, Birkdale Properties Ltd, Folimo Properties Ltd, Steparco Ltd, Thames Properties Ltd and Finerose Properties Ltd.

36. Investments in associates and joint venture

Investments in associates	**Percentage holding (%)**
Aris Capital Management LLC	**30.0**
Rosequeens Properties Limited	**33.3**
Fairways Automotive Holdings Ltd	**45.0**

The carrying values of the investments in associates are considered to be fully impaired and their value has been restricted to zero.

Rosequeens Properties SRL
During the year ended 31 December 2022 the Group disposed of its 33.3% holding in associate company Rosequeens Properties SRL.

Investment in joint venture	**Percentage holding (%)**
Tsiros (Agios Tychon) Ltd	**50.0**

The carrying value of the investment in the joint venture is considered to be fully impaired and its value has been restricted to zero.

37. Events after the reporting period

In July 2023, BOC PCL issued a €350 million senior preferred note (the 'Notes') under the EMTN Programme. The Notes were priced at par with a fixed coupon of 7.375% per annum, payable annually in arrear, until the Optional Redemption Date (i.e., 25 July 2027). The maturity date of the Notes is 25 July 2028; however, BOC PCL may, at its discretion, redeem the Notes on the Optional Redemption Date subject to meeting certain conditions (including applicable regulatory consents) as specified in the terms and conditions of the Notes. If the Notes are not redeemed by BOC PCL, the coupon payable from the Optional Redemption Date until the Maturity Date will convert from a fixed rate to a floating rate and will be equal to 3-month Euribor plus 409.5 basis points, payable quarterly in arrears. The Notes are listed on the Luxembourg Stock Exchange's Euro MTF market. The Notes comply with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contribute towards BOC PCL's MREL requirements.

No other significant non-adjusting events have taken place since 30 June 2023.

Independent review report to Bank of Cyprus Holdings Public Limited Company

Report on the consolidated condensed interim financial statements

Our conclusion

We have reviewed Bank of Cyprus Holdings Public Limited Company's consolidated condensed interim financial statements (the "interim financial statements") in the Interim Financial Report of Bank of Cyprus Holdings Public Limited Company for the six month period ended 30 June 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007, as amended, Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019 and the applicable requirements of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

The interim financial statements, comprise:

- The Interim Consolidated Balance Sheet as at 30 June 2023;
- the Interim Consolidated Income Statement and the Interim Consolidated Statement of Comprehensive Income for the period then ended;
- the Interim Consolidated Statement of Cash Flows for the period then ended;
- the Interim Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Financial Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007, as amended, Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019 and the applicable requirements of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

As disclosed in note 3.2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' ("ISRE (Ireland) 2410") issued for use in Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (Ireland) 2410. However future events or conditions may cause the group to cease to continue as a going concern.

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Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Financial Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Financial Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, as amended, Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019 and the applicable requirements of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority. In preparing the Interim Financial Report including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Financial Report based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Transparency (Directive 2004/109/EC) Regulations 2007, as amended, Part 2 (Transparency Requirements) of the Central Bank (Investment Market Conduct) Rules 2019 and the applicable requirements of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
8 August 2023
Dublin

Alternative Performance Measures Disclosures

30 June 2023

DEFINITIONS

Allowance for expected credit losses on loans	Allowance for expected credit losses on loans comprises: (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers classified as non-current assets held for sale, where applicable), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers (including residual fair value adjustment on initial recognition of loans and advances to customers held for sale, where applicable), (iii) allowance for expected credit losses on off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
Cost to income ratio	Cost to income ratio is calculated as total expenses per the underlying basis (as defined below) divided by total income as per the underlying basis (as defined below).
Digitally engaged customers ratio	This is the ratio of digitally engaged individual customers to the total number of individual customers. Digitally engaged customers are the individuals who use the digital channels of BOC PCL (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard.
Gross loans	Gross Loans comprise: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale, where applicable) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment. The residual fair value adjustment on initial recognition relates mainly to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired at acquisition).
Interest earning assets	Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including net loans and advances to customers classified as non-current assets held for sale, where applicable) (as defined below), plus deferred consideration receivable ('DPP'), plus investments (excluding equities, mutual funds and other non-interest bearing investments).
Legacy exposures	Legacy exposures are exposures relating to (i) Restructuring and Recoveries Division (RRD), (ii) Real Estate Management Unit (REMU), and (iii) Non-core overseas exposures.
Leverage ratio	The leverage ratio is the ratio of tangible total equity to total assets as presented on the balance sheet. Tangible total equity comprises of equity attributable to the owners of the Company and Other equity instruments minus intangible assets.
Loan credit losses	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost relating to loans and advances to customers and (iii) net gains on loans and advances to customers at FVPL, for the period/year.

Loan credit losses charge (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the loan credit losses (as defined) (annualised based on year to date days) divided by the average gross loans (as defined). The average gross loans are calculated as the average of the opening balance and the closing balance of Gross loans (as defined), for the reporting period/year.
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised based on year to date days) divided by the quarterly average interest earning assets (as defined). Quarterly average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable.
Net loans and advances to customers	Net loans and advances to customers comprise gross loans (as defined) net of allowance for expected credit losses on loans (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures disclosed on the balance sheet within other liabilities).
Net loans to deposits ratio	Net loans to deposits ratio is calculated as the gross loans (as defined) net of allowance for expected credit losses on loans (as defined), divided by customer deposits.
Net performing loan book	Net performing loan book is the total net loans and advances to customers (as defined) excluding net loans included in legacy exposures (as defined).
New lending	New lending includes the disbursed amounts of the new and existing non-revolving facilities (excluding forborne or re-negotiated accounts) as well as the average year to date change (if positive) of the current accounts and overdraft facilities between the balance at the beginning of the period and the end of the period. Recoveries are excluded from this calculation since their overdraft movement relates mostly to accrued interest and not to new lending.
Non-performing exposures (NPEs)	As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions: (i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due. (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, diminished financial obligation and obligor bankruptcy. (iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due. (iv) Performing forborne exposures under probation for which additional forbearance measures are extended. (v) Performing forborne exposures previously classified as NPES that present more than 30 days past due within the probation period. From 1 January 2021 two regulatory guidelines came into force that affect NPE classification and Days-Past-Due calculation. More specifically, these are the RTS on the Materiality Threshold of Credit Obligations Past-Due (EBA/RTS/2016/06), and the Guideline on the Application of the Definition of Default under article 178 (EBA/GL/2016/07).

	The Days-Past-Due (DPD) counter begins counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than as of the first day of presenting any amount of arrears or excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality threshold. Payments towards the exposure that do not reduce the arrears/excesses below the materiality threshold, will not impact the counter. For retail debtors, when a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on-balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing. For non-retail debtors, when an exposure fulfils the NPE criteria set out above, then the total customer exposure is classified as non-performing. Material arrears/excesses are defined as follows: - Retail exposures: Total arrears/excess amount greater than €100 - Exposures other than retail: Total arrears/excess amount greater than €500 and the amount in arrears/excess is at least 1% of the customer's total exposure. The NPEs are reported before the deduction of allowance for expected credit losses on loans (as defined).
Non-recurring items	Non-recurring items as presented in the 'Consolidated Income Statement on the underlying basis' relate to 'Advisory and other transformation costs – organic' (2022: Non-recurring items relate to: (i) Advisory and Other transformation costs-ongoing (ii) Provisions/net loss relating to NPE sales, (iii) Restructuring and other costs relating to NPE sales, and (iv) Restructuring costs – Voluntary Staff Exit Plan (VEP), as applicable).
NPE coverage ratio	The NPE coverage ratio is calculated as the allowance for expected credit losses on loans on an underlying basis (as defined) over NPEs (as defined).
NPE ratio	The NPE ratio is calculated as the NPEs (as defined) divided by gross loans (as defined).
Operating profit	Operating profit on an underlying basis comprises profit before loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for litigation, claims, regulatory and other matters (net of reversals), tax, profit attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised (based on year to date days) operating profit on an underlying basis (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company) is the operating profit (as defined) adjusted for loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for litigation, claims, regulatory and other matters (net of reversals), tax and (profit)/loss attributable to non-controlling interests.
Profit/(loss) after tax – organic (attributable to the owners of the Company)	Profit/(loss) after tax - organic (attributable to the owners of the Company) is the profit/(loss) after tax and before non-recurring items (as defined) (attributable to the owners of the Company), adjusted for the 'Advisory and other transformation costs – organic'.

Return on Tangible Equity (ROTE) after tax and before non-recurring items	Return on Tangible Equity (ROTE) after tax and before non-recurring items is calculated as Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company) (as defined) per the underlying basis (annualised - (based on year-to-date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end.
Return on Tangible Equity (ROTE)	Return on Tangible Equity (ROTE) is calculated as Profit/(loss) after tax (attributable to the owners of the Company) (annualised - (based on year-to-date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end.
Shareholders' equity	Shareholders' equity comprise total equity adjusted for non-controlling interest and other equity instruments.
Time deposit pass-through	Calculated as a percentage of the cost (interest expense) of Time and Notice deposits over the average 6-month Euribor rate of the period.
Total expenses	Total expenses on the underlying basis comprise the total staff costs, special levy on deposits and other levies/contributions and other operating expenses (excluding 'Advisory and other transformation costs-organic', (on an underlying basis) as reconciled in the table further below) (2022: total expenses on the underlying basis comprise total staff costs (excluding 'Restructuring costs – Voluntary Staff Exit Plan (VEP)') (on an underlying basis as reconciled in the table further below), special levy on deposits and other levies/contributions and other operating expenses (excluding 'Advisory and other transformation costs-organic', 'Restructuring and other costs relating to NPE sales', on an underlying basis as reconciled in the table further below)).
Total income	Total income on the underlying basis comprises the total of net interest income, net fee and commission income, net foreign exchange gains, net gains/(losses) on financial instruments (excluding net gains/(losses) on loans and advances to customers at FVPL), net insurance result, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of property and other income (on an underlying basis). A reconciliation of these amounts between the statutory and the underlying bases is disclosed in the Interim Management Report under section 'Group financial results on the underlying basis'.

RECONCILIATIONS

For the purpose of the 'Alternative Performance Measures Disclosures', reference to 'Note' relates to the respective note in the Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023.

Reconciliations between the calculations of non-IFRS performance measures and the most directly comparable IFRS measures which allow for the comparability of the underlying basis to statutory information are disclosed below.

On 1 January 2023, the Group adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative information previously published under IFRS 4 'Insurance Contracts' restated from 1 January 2022, the transition date and therefore reconciliations of alternative performance measures have also been restated, where applicable.

1. Reconciliation of Gross loans and advances to customers

	30 June 2023	31 December 2022
	€000	€000
Gross loans and advances to customers as per the underlying basis (as defined above)	**10,277,457**	10,217,453
Reconciling items:		
Residual fair value adjustment on initial recognition (Note 18)	**(74,998)**	(89,029)
Loans and advances to customers measured at fair value through profit or loss (Note 18)	**(210,385)**	(214,359)
Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss	**3,261**	3,270
Gross loans and advances to customers at amortised cost as per the Consolidated Condensed Interim Financial Statements (Note 18)	**9,995,335**	9,917,335

2. Reconciliation of Allowance for expected credit losses (ECL) on loans and advances to customers

	30 June 2023	31 December 2022
	€000	€000
Allowance for expected credit losses on loans and advances to customers (ECL) as per the underlying basis (as defined above)	**287,645**	281,630
Reconciling items:		
Residual fair value adjustment on initial recognition (Note 18)	**(74,998)**	(89,029)
Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss	**3,261**	3,270
Provisions for financial guarantees and commitments (Note 24)	**(18,007)**	(17,429)
Allowance for ECL for impairment of loans and advances to customers as per the Consolidated Condensed Interim Financial Statements (Note 18)	**197,901**	178,442

3. Reconciliation of NPEs

	30 June 2023	31 December 2022
	€000	€000
NPEs as per the underlying basis (as defined above)	**371,091**	410,563
Reconciling items:		
POCI (NPEs) *(Note 1 below)*	**(35,866)**	(37,742)
Residual fair value adjustment on initial recognition of loans and advances to customers (NPEs) classified as Stage 3 (Note 18)	**(1,433)**	(1,803)
Stage 3 gross loans and advances to customers at amortised cost as per the Consolidated Condensed Interim Financial Statements (Note 18)	**333,792**	371,018
NPE ratio		
NPEs (as per table above) (€000)	**371,091**	410,563
Gross loans and advances to customers (as per table above) (€000)	**10,277,457**	10,217,453
Ratio of NPE/Gross loans (%)	**3.6%**	4.0%

Note 1: Gross loans and advances to customers at amortised cost before residual fair value adjustment on initial recognition include an amount of €35,866 thousand POCI – Stage 3 loans (out of a total of €107,622 thousand POCI loans) (31 December 2022: €37,742 thousand POCI – Stage 3 loans (out of a total of €115,544 thousand POCI loans)) as disclosed in Note 18 of the Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023.

4. Reconciliation of Loan credit losses

	Six months ended 30 June	
	2023	2022
	€000	€000
Loan credit losses as per the underlying basis	**24,397**	23,118
Reconciling items:		
Loan credit losses relating to NPE sales, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis	**-**	385
	24,397	23,503
Loan credit losses (as defined) are reconciled to the statutory basis as follows:		
Credit losses to cover credit risk on loans and advances to customers (Note 12)	**30,290**	23,959
Net gains on derecognition of financial assets measured at amortised cost – loans and advances to customers (see further below)	**(5,902)**	(2,515)
Net losses on loans and advances to customers at FVPL (Note 10)	**9**	2,059
	24,397	23,503

Net gains on derecognition of financial assets measured at amortised cost on the Interim Consolidated Income Statement amount to €5,861 thousand (30 June 2022: €1,648 thousand) and comprise €5,902 thousand (30 June 2022: €2,515 thousand) net gains on derecognition of loans and advances to customers and €41 thousand (30 June 2022: €867 thousand) net losses on derecognition of debt securities measured at amortised cost.

KEY PERFORMANCE RATIOS INFORMATION

For the purpose of the 'Alternative Performance Measures Disclosures', reference to 'Note' relates to the respective note in the Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023

1. Net Interest Margin

The various components for the calculation of net interest margin are provided below:

1.1 Net interest income used in the calculation of NIM	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Net interest income as per the underlying basis/statutory basis	**358,342**	145,722
Net interest income used in the calculation of NIM (annualized)	**722,623**	293,859

1.2 Interest earning assets	**30 June 2023**	31 March 2023	31 December 2022
	€000	€000	€000
Cash and balances with central banks	**9,127,429**	9,247,705	9,567,258
Loans and advances to banks	**431,812**	415,832	204,811
Loans and advances to customers	**10,007,819**	10,013,108	9,953,252
Prepayments, accrued income and other assets – Deferred consideration receivable ('DPP') (Note 20)	**320,655**	315,755	311,523
Investments			
Debt securities (Note 15)	**3,178,127**	2,746,790	2,499,894
Total interest earning assets	**23,065,842**	22,739,190	22,536,738
1.3 Quarterly average interest earning assets (€000)			
- as at 30 June 2023			**22,780,590**
- as at 30 June 2022			22,235,482

1.4 Net interest margin (NIM)	**Six months ended 30 June**	
	2023	2022 (restated)
Net interest income (annualised) (as per table 1.1 above) (€000)	**722,623**	293,859
Quarterly average interest earning assets (as per table 1.3 above) (€000)	**22,780,590**	22,235,482
NIM (%)	**3.17%**	1.32%

2. Cost to income ratio

2.1 Reconciliation of the various components of total expenses used in the cost to income ratio calculation from the underlying basis to the statutory basis is provided below:

2.1.1 Reconciliation of Staff costs	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Total Staff costs as per the underlying basis	**93,043**	95,173
Reclassifications for:		
Restructuring costs – separately presented under the underlying basis in 2022	**n/a**	3,130
Staff costs as per the statutory basis (Note 11)	**93,043**	98,303

2.1.2 Reconciliation of Other operating expenses	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Other operating expenses as per the underlying basis	**68,199**	69,149
Reclassifications for:		
Operating expenses and restructuring costs relating to the NPE sales, presented within 'Restructuring and other costs relating to NPE sales' under the underlying basis	**n/a**	1,389
Advisory and other transformation costs – organic, separately presented under the underlying basis	**2,257**	5,286
Other operating expenses as per the statutory basis (Note 11)	**70,456**	75,824

Reconciliation of the various components of total income used in the cost to income ratio calculation from the underlying basis to the statutory basis is provided below:

2.2 Total Income as per the underlying basis	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Net interest income as per the underlying basis/statutory basis (as per table 1.1 above)	**358,342**	145,722
Net fee and commission income as per the underlying basis/statutory basis	**89,604**	93,639
Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost as per the underlying basis (as per table 2.3 below)	**21,487**	2,907
Net insurance result (Note below)	**24,561**	23,724
Net losses from revaluation and disposal of investment properties and Net gains on disposal of stock of properties (as per the statutory basis)	**4,694**	6,870
Other income (as per the statutory basis)	**12,200**	8,927
Total Income as per the underlying basis	**510,888**	281,789

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

2. Cost to income ratio (continued)

2.3 Reconciliation of Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost between the statutory basis and the underlying basis	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost as per the underlying basis	**21,487**	2,907
Reclassifications for:		
Net losses on loans and advances to customers measured at fair value through profit or loss (FVPL), disclosed within 'Loan credit losses' per the underlying basis (Note 10)	**(9)**	(2,059)
Net gains on derecognition of financial assets measured at amortised cost - loans and advances to customers (Table 4 Section 'Reconciliations' above)	**5,902**	2,515
Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost as per the statutory basis (see below)	**27,380**	3,363
Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost (as per table above) are reconciled to the statutory basis as follows:		
Net foreign exchange gains	**15,839**	11,898
Net gains/(losses) on financial instruments (Note 10)	**5,680**	(10,183)
Net gains on derecognition of financial assets measured at amortised cost	**5,861**	1,648
	27,380	3,363

2.4 Total Expenses as per the underlying basis	**Six months ended 30 June**	
	2023	2022 (restated)
	€000	€000
Staff costs as per the underlying basis (as per 2.1.1 table above)	**93,043**	95,173
Special levy on deposits and other levies/contributions as per the underlying basis/statutory basis	**18,236**	16,507
Other operating expenses as per the underlying basis (as per table 2.1.2 above)	**68,199**	69,149
Total Expenses as per the underlying basis	**179,478**	180,829
Cost to income ratio		
Total expenses (as per table 2.4 above) (€000)	**179,478**	180,829
Total income (as per table 2.2 above) (€000)	**510,888**	281,789
Total expenses/Total income (%)	**35%**	64%

3. Operating profit return on average assets

The various components used in the determination of the operating profit return on average assets are provided below:

	30 June 2023	31 March 2023	31 December 2022 (restated)
	€000	€000	€000
Total assets used in the computation of the operating profit return on average assets/per the Interim Consolidated Balance Sheet	**25,706,637**	25,386,804	25,288,541
Quarterly average total assets (€000)			
- as at 30 June 2023			**25,460,661**
- as at 30 June 2022 (restated)			25,142,255

	2023	2022 (restated)
Annualised total income for the six months ended 30 June (as per table 2.2 above) (€000)	**1,030,244**	568,249
Annualised total expenses for the six months ended 30 June (as per table 2.4 above) (€000)	**(361,931)**	(364,655)
Annualised operating profit for the six months ended 30 June (€000)	**668,313**	203,594
Quarterly average total assets as at 30 June (as per table above) (€000)	**25,460,661**	25,142,255
Operating profit return on average assets (annualised) (%)	**2.6%**	0.8%

4. Cost of Risk

	Six months ended 30 June	
	2023	2022
	€000	€000
Annualised loan credit losses (as per table 4 in section 'Reconciliation' above)	**49,198**	46,619
Average gross loans (as defined) (as per table 1 above)	**10,247,455**	10,951,845
Cost of Risk (CoR) %	**0.48%**	0.43%

5. Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company

The various components used in the determination of the 'Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company (€ cent)' are provided below:

	2023	2022 (restated)
Profit after tax and before non-recurring items (attributable to the owners of the Company) per the underlying basis for the six months ended 30 June (as per table 5.1 below) (€000)	**222,504**	52,404
Weighted average number of shares in issue during the period, excluding treasury shares (€000) (Note 14)	**446,058**	446,058
Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company (€ cent)	**49.88**	11.75

The reconciliation between the 'Profit after tax and before non-recurring items (attributable to the owners of the Company)' per the underlying basis to the 'Profit after tax (attributable to the owners of the Company)' per the statutory basis is provided in the table below:

5.1 Reconciliation of Profit after tax-attributable to the owners of the Company

	Six months ended 30 June	
	2023	2022 (restated)
	€000	€000
Profit after tax and before non-recurring items (attributable to the owners of the Company) per the underlying basis	**222,504**	52,404
Reclassifications for:		
Loan credit losses relating to NPE sales, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis (as per table 4 in section 'Reconciliations' above)	**-**	(385)
Operating expenses and restructuring costs relating to the NPE sales, presented within 'Restructuring and other costs relating to NPE sales' under the underlying basis (as per table 2.1.2 above)	**-**	(1,389)
Advisory and other transformation costs – organic, separately presented under the underlying basis (as per table 2.1.2 above)	**(2,257)**	(5,286)
Restructuring costs – voluntary exit plan, and other termination benefits, separately presented under the underlying basis (as per table 2.1.1 above)	**-**	(3,130)
Profit after tax (attributable to the owners of the Company) per the statutory basis	**220,247**	42,214

6. Return on tangible equity (ROTE)

The various components used in the determination of 'Return on tangible equity (ROTE)' are provided below:

	2023	2022 (restated)
Annualised profit after tax (attributable to the owners of the Company) for the six months ended 30 June (as per table 5.1 above) (€000)	**444,145**	85,128
Quarterly average tangible shareholder's equity as at 30 June (as per table 6.2 below) (€000)	**1,846,802**	1,751,868
ROTE (%)	**24.0%**	4.9%

6.1 Tangible shareholder's equity	**30 June 2023**	31 March 2023	31 December 2022 (restated)
	€000	€000	€000
Equity attributable to the owners of the Company (as per the statutory basis)	**1,984,459**	1,899,202	1,806,266
Less: Intangible assets (as per the statutory basis)	**(47,546)**	(49,430)	(52,546)
Total tangible shareholder's equity	**1,936,913**	1,849,772	1,753,720
6.2 Quarterly average tangible shareholder's equity (€000)			
- as at 30 June 2023			**1,846,802**
- as at 30 June 2022 (restated)			1,751,868

7. Leverage ratio

	2023	2022 (restated)
Total assets as at 30 June 2023/31 December 2022 (€000)	**25,706,637**	25,288,541
Tangible total equity (including Other equity instruments) as at 30 June 2023/31 December 2022 (as per table 7.1 below) (€000)	**2,172,430**	1,973,720
Leverage ratio	**8.5%**	7.8%

7.1 Tangible total equity	**30 June 2023**	31 December 2022 (restated)
	€000	€000
Equity attributable to the owners of the Company (as per the statutory basis)	**1,984,459**	1,806,266
Other equity instruments	**235,517**	220,000
Less: Intangible assets (as per the statutory basis)	**(47,546)**	(52,546)
Total tangible equity	**2,172,430**	1,973,720