Bank of Cyprus Holdings

Announcement

Group Financial Results for the six months ended 30 June 2021

Nicosia, 1 September 2021

Key Highlights for the six months ended 30 June 2021

Strong recovery underway

- 12.9% GDP growth in 2Q2021
- Continuing to support this recovery; new lending of €894 mn in 1H2021, up 30% yoy
- Tourism demonstrating signs of recovery; July 2021 arrivals +358% yoy or 54% of July 2019 levels
- 78% of the adult population in Cyprus vaccinated with the first dose[1] and 74% have completed their vaccination regime

Positive Operating Performance

- Total income of €152 mn for 2Q2021, up 11% qoq, Operating profit of €57 mn for 2Q2021 up 28% qoq
- Cost of risk of 52 bps for 2Q2021, improved by 14 bps qoq
- Profit after tax and before non-recurring items of €34 mn for 2Q2021 and €51 mn for 1H2021
- After recognising exceptional costs, loss after tax of €7 mn for 2Q2021 and profit after tax of €1 mn for 1H2021

Operating Efficiency

- Total operating expenses[2] of €89 mn for 2Q2021, up 7% qoq, reflecting seasonality in prior quarter
- Cost to income ratio[2] at 58% for 2Q2021, down 2 p.p. qoq

Good Capital, Strong Liquidity

- CET1 ratio of 14.2%[3] and Total Capital ratio of 19.2%[3]
- MREL interim requirement of 1 Jan 2022 already achieved through the successful refinancing of Tier 2 and the inaugural issuance of Senior Preferred notes in 2Q2021
- Deposits at €16.8 bn, up 3% qoq; Significant surplus liquidity of €5.7 bn (LCR at 303%)

Balance Sheet Repair Continuing

- €1.3 bn NPE sale (Helix 2 Portfolios A and B) completed in 2Q2021
- NPEs at €1.6 bn (€0.6 bn net)
- Gross NPE ratio reduced to 14.6% (6.4% net); organic NPE reduction of €171 mn in 1H2021
- Coverage improved to 60% over the quarter
- 96% of performing loans[4] under expired payment deferrals with an instalment due by 12 August 2021, presented no arrears

1. Data as at 28 August 2021 (Source: Ministry of Health)
2. Excluding special levy on deposits and other levies/contributions
3. Allowing for IFRS 9 and temporary treatment for certain FVOCI instruments transitional arrangements
4. As at 30 June 2021

Group Chief Executive Statement

“Strong recovery in economic activity marked the second quarter of the year, against the backdrop of increasing vaccination coverage across Cyprus and the relaxation of restrictions. Leveraging on the stronger economic environment in the quarter, our strategy is beginning to deliver results, demonstrated by the improvement in our performance before non-recurring items which nearly doubled on the prior quarter. At the same time, we further strengthened our balance sheet through the completion of Project Helix 2, and successfully accessed the markets twice in the quarter, refinancing our Tier 2 capital notes, as well as early achieving our interim regulatory MREL requirement.

Vaccinations have a catalytic effect, unlocking both the economy and society. 78% of the adult population in Cyprus have been vaccinated with the first dose and 74% have completed their vaccination regime. Further underscoring our commitment to continue to support the country’s return to growth, we extended €407 mn of new loans in the quarter, reaching €894 mn of new loans in the first half of the year, an increase of 30% compared to the same period last year.

During the second quarter of the year, we generated total income of €152 mn and a positive operating result of €57 mn, up by 28% on the prior quarter. Our cost of risk reduced by a further 14 bps to 52 bps. We delivered a profit after tax and before non-recurring items of €34 mn. After recognising non-recurring items, the most significant of which are €12 mn of costs relating to the Tier 2 Capital Notes tender offer and €26 mn of costs relating to the NPE sales of which more than half will be unwound over time, the overall result for the quarter was a loss after tax of €7 mn. The overall result for the first six months of the year was a profit of €1 mn.

Our cost to income ratio (excluding levies and contributions) for the second quarter improved by 2 percentage points, despite a 7% increase in total operating expenses, as a result of the 11% quarterly increase in total income. As previously disclosed, we anticipate that our cost to income ratio will rise in the near term as revenues remain under pressure and operating expenses increase due to higher IT/digitisation investment costs before decreasing to our target of mid-50% in the medium term.

The Bank’s capital position remains sound and comfortably in excess of our regulatory requirements. As at 30 June 2021, our capital ratios (on a transitional basis) were 19.2% for the Total Capital ratio and 14.2% for CET1 ratio. Following the successful refinancing of our Tier 2 Capital Notes in April 2021, we proceeded with the inaugural issuance of €300 mn senior preferred notes in June 2021 thereby early achieving our interim regulatory MREL requirement. Our liquidity position also remains strong and we operate with €5.7 bn surplus liquidity and an LCR of 303%. Deposits on our balance sheet increased in the quarter by 3% to €16.8 bn.

The process of balance sheet repair continues. In June 2021 we completed Project Helix 2 and derecognised €1.3 bn NPEs from our balance sheet. We also organically reduced NPEs by €171 mn in the first half of the year. Overall, since the peak in 2014, we have now reduced the stock of NPEs by €13.4 bn or 89% to €1.6 bn and the NPE ratio by 48 percentage points, from 62.9% to 14.6%. We continue to actively explore strategies to accelerate de-risking including further portfolio sales, and remain on track with achieving a single digit NPE ratio by the end of 2022. At the same time, we continue to closely monitor the performance of loans which had been granted payment deferrals in the previous year. 96% of performing loans whose payment deferrals have expired and had an instalment by mid-August, presented no arrears. This is a better performance than expected, now nearly eight months after deferral expiry, and bodes well for future trends.

Whilst remaining alert to the uncertainties that the pandemic continues to bring, we anticipate the economic recovery to continue in the second half of the year and into 2022, as economic activity continues to improve. In addition, the implementation of the Cyprus Recovery and Resilience Plan is expected to support domestic activity and employment through higher investment and to enhance growth potential through reforms. As the leading bank in Cyprus, we remain committed to being part of this recovery through the continued support to our customers, colleagues and community, whilst remaining absolutely committed to our strategic initiatives of completing de-risking, revenue enhancement and cost optimisation through business transformation in order to deliver shareholder returns in the medium term.”

Panicos Nicolaou

A. Group Financial Results – Statutory Basis

Interim Consolidated Income Statement for the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	€000	€000
Turnover	**391,367**	376,652
Interest income	**179,272**	198,749
Income similar to interest income	**17,626**	24,398
Interest expense	**(28,670)**	(31,998)
Expense similar to interest expense	**(16,015)**	(23,349)
Net interest income	**152,213**	167,800
Fee and commission income	**87,610**	74,909
Fee and commission expense	**(3,753)**	(3,664)
Net foreign exchange gains	**6,550**	10,543
Net (losses)/gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	**(14,076)**	4,848
Insurance income net of claims and commissions	**31,068**	28,915
Net losses from revaluation and disposal of investment properties	**(1,381)**	(2,329)
Net gains on disposal of stock of property	**7,372**	2,676
Other income	**6,597**	8,043
	272,200	291,741
Staff costs	**(100,866)**	(96,208)
Special levy on deposits and other levies/contributions	**(15,255)**	(15,323)
Other operating expenses	**(95,588)**	(94,564)
	60,491	85,646
Net gains on derecognition of financial assets measured at amortised cost	**1,053**	2,617
Credit losses to cover credit risk on loans and advances to customers	**(48,349)**	(183,711)
Credit losses of other financial instruments	**(3,814)**	(626)
Impairment net of reversals of non-financial assets	**(7,398)**	(28,584)
Profit/(loss) before share of profit/(loss) from associates	**1,983**	(124,658)
Share of profit/(loss) from associates	**137**	(206)
Profit/(loss) before tax	**2,120**	(124,864)
Income tax	**(968)**	(4,259)
Profit/(loss) after tax for the period	**1,152**	(129,123)
Attributable to:		
Owners of the Company	**739**	(125,618)
Non-controlling interests	**413**	(3,505)
Profit/(loss) for the period	**1,152**	(129,123)
Basic and diluted profit/(loss) per share attributable to the owners of the Company (€ cent)	**0.2**	(28.2)

A. Group Financial Results – Statutory Basis (continued)

Interim Consolidated Balance Sheet as at 30 June 2021

	30 June 2021	31 December 2020
Assets	**€000**	€000
Cash and balances with central banks	**8,227,491**	5,653,315
Loans and advances to banks	**436,091**	402,784
Derivative financial assets	**8,343**	24,627
Investments	**882,743**	1,876,009
Investments pledged as collateral	**1,315,329**	37,105
Loans and advances to customers	**9,966,542**	9,886,047
Life insurance business assets attributable to policyholders	**518,094**	474,187
Prepayments, accrued income and other assets	**685,162**	249,877
Stock of property	**1,284,820**	1,349,609
Deferred tax assets	**303,390**	341,360
Investment properties	**127,149**	128,088
Property and equipment	**260,813**	272,474
Intangible assets	**184,650**	185,256
Investments in associates and joint venture	**-**	2,462
Non-current assets and disposal groups held for sale	**10,696**	630,931
Total assets	**24,211,313**	21,514,131
Liabilities		
Deposits by banks	**400,681**	391,949
Funding from central banks	**2,985,225**	994,694
Derivative financial liabilities	**42,153**	45,978
Customer deposits	**16,801,251**	16,533,212
Insurance liabilities	**708,373**	671,603
Accruals, deferred income, other liabilities and other provisions	**355,819**	359,892
Pending litigation, claims, regulatory and other matters	**155,765**	123,615
Loan stock	**645,099**	272,152
Deferred tax liabilities	**46,465**	45,982
Total liabilities	**22,140,831**	19,439,077
Equity		
Share capital	**44,620**	44,620
Share premium	**594,358**	594,358
Revaluation and other reserves	**214,163**	209,153
Retained earnings	**972,533**	982,513
Equity attributable to the owners of the Company	**1,825,674**	1,830,644
Other equity instruments	**220,000**	220,000
Total equity excluding non-controlling interests	**2,045,674**	2,050,644
Non-controlling interests	**24,808**	24,410
Total equity	**2,070,482**	2,075,054
Total liabilities and equity	**24,211,313**	21,514,131

B. Group Financial Results – Underlying Basis

Interim Condensed Consolidated Income Statement

€ mn	**1H2021**	**1H2020**	**2Q2021**	**1Q2021**	qoq ±%	yoy ±%
Net interest income	152	168	76	76	-1%	-9%
Net fee and commission income	84	71	45	39	18%	18%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	8	12	6	2	122%	-35%
Insurance income net of claims and commissions	31	29	18	13	36%	7%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	6	0	4	2	66%	-
Other income	7	8	3	4	-17%	-18%
Total income	**288**	**288**	**152**	**136**	11%	0%
Staff costs	(101)	(96)	(51)	(50)	2%	5%
Other operating expenses	(70)	(69)	(38)	(32)	14%	1%
Special levy on deposits and other levies/contributions	(15)	(15)	(6)	(9)	-32%	0%
Total expenses	**(186)**	**(180)**	**(95)**	**(91)**	3%	3%
Operating profit	**102**	**108**	**57**	**45**	28%	-6%
Loan credit losses	(35)	(87)	(15)	(20)	-25%	-60%
Impairments of other financial and non-financial assets	(11)	(29)	(6)	(5)	12%	-62%
Provisions for litigation, claims, regulatory and other matters	(4)	(4)	(3)	(1)	-	8%
Total loan credit losses, impairments and provisions	**(50)**	**(120)**	**(24)**	**(26)**	-6%	-58%
Profit/(loss) before tax and non-recurring items	**52**	**(12)**	**33**	**19**	74%	-
Tax	(1)	(5)	1	(2)	-	-77%
(Profit)/loss attributable to non-controlling interests	(0)	4	(0)	(0)	59%	-
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	**51**	**(13)**	**34**	**17**	99%	-
Advisory and other restructuring costs – organic	(18)	(6)	(15)	(3)	-	-
Profit/(loss) after tax – organic (attributable to the owners of the Company)	**33**	**(19)**	**19**	**14**	30%	-
Provisions/net loss relating to NPE sales, including restructuring expenses[1]	(32)	(107)	(26)	(6)	-	-70%
Profit/(loss) after tax (attributable to the owners of the Company)	**1**	**(126)**	**(7)**	**8**	-	-

B. Group Financial Results – Underlying Basis (continued)

Interim Condensed Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios[2]	**1H2021**	**1H2020**	**2Q2021**	**1Q2021**	qoq ±%	yoy ±%
Net Interest Margin (annualised)	1.56%	1.90%	1.49%	1.63%	-14 bps	-34 bps
Cost to income ratio	64%	62%	62%	67%	-5 p.p.	+2 p.p.
Cost to income ratio excluding special levy on deposits and other levies/contributions	59%	57%	58%	60%	-2 p.p.	+2 p.p.
Operating profit return on average assets (annualised)	0.9%	1.0%	1.0%	0.8%	+0.2 p.p.	-0.1 p.p.
Basic earnings/(losses) per share attributable to the owners of the Company (€ cent)	0.17	(28.16)	(1.66)	1.83	(3.49)	28.33
Basic earnings/(losses) after tax and before non-recurring items per share attributable to the owners of the Company (€ cent)[3]	11.24	(2.93)	7.48	3.76	3.72	14.17

1. 'Provisions/net (loss) relating to NPE sales, including restructuring expenses' refer to the net loss on transactions completed, net loan credit losses on transactions under consideration, as well as the restructuring costs relating to these trades. For further details please refer to Section B.3.4. 2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant. 3. As of 30 June 2021, the management monitors 'basic earnings/(losses) per share attributable to the owners of the Company' calculated using 'Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)', rather than 'Profit/(loss) after tax – organic (attributable to the owners of the Company)' which was previously the case, as the management believes it is a more appropriate measure of monitoring recurring performance, as it excludes 'Advisory and other restructuring costs – organic' which do not relate to the underlying or recurring business of the Group as a banking and financial services institution, but mainly to the cost of the Tier 2 Capital Notes tender offer of €12 mn, as well as certain costs relating to restructuring activities the Bank has associated with the organic reduction of NPEs, which have been decreasing as the level of NPEs is being reduced. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Commentary on Underlying Basis

The financial information presented in this Section provides an overview of the Group financial results for the six months ended 30 June 2021 on the 'underlying basis' which the management believes best fits the true measurement of the performance and position of the Group, as this presents separately the exceptional and one-off items.

Reconciliations between the statutory basis and the underlying basis are included in Section B.1 'Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2021 between statutory basis and underlying basis' and in 'Definitions and explanations on Alternative Performance Measures Disclosures' of the 'Interim Financial Report 2021', to facilitate the comparability of the underlying basis to the statutory information.

Project Helix 2 refers to the agreement the Group reached in August 2020 with funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), for the sale of a portfolio of loans with gross book value of €0.9 bn (Helix 2 Portfolio A), as well as to the agreement the Group reached with PIMCO in January 2021 for the sale of an additional portfolio of loans with gross book value of €0.5 bn (Helix 2 Portfolio B). **Project Helix 2 sale was completed in June 2021.** In relation to the disclosure of pro forma figures and ratios with respect to Project Helix 2, where numbers are provided on a pro forma basis this is stated. Further details are provided in Section B.2.5 'Loan portfolio quality'.

B. Group Financial Results – Underlying Basis (continued)

Consolidated Condensed Interim Balance Sheet

€ mn	30.6.2021	31.12.2020	±%
Cash and balances with central banks	8,227	5,653	46%
Loans and advances to banks	436	403	8%
Debt securities, treasury bills and equity investments	2,198	1,913	15%
Net loans and advances to customers	9,967	9,886	1%
Stock of property	1,285	1,350	-5%
Investment properties	127	128	-1%
Other assets	1,960	1,550	26%
Non-current assets and disposal groups held for sale	11	631	-98%
Total assets	**24,211**	**21,514**	**13%**
Deposits by banks	401	392	2%
Funding from central banks	2,985	995	-
Customer deposits	16,801	16,533	2%
Loan stock	645	272	-
Other liabilities	1,309	1,247	5%
Total liabilities	**22,141**	**19,439**	**14%**

Shareholders' equity	**1,826**	**1,831**	**0%**
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	**2,046**	**2,051**	**0%**
Non-controlling interests	24	24	2%
Total equity	**2,070**	**2,075**	**0%**
Total liabilities and equity	**24,211**	**21,514**	**13%**

Key Balance Sheet figures and ratios[1]	**30.6.2021**	**31.12.2020**	**±**
Gross loans (€ mn)	**10,893**	12,261	-11%
Allowance for expected loan credit losses (€ mn)	**947**	1,902	-50%
Customer deposits (€ mn)	**16,801**	16,533	2%
Loans to deposits ratio (net)	**59%**	63%	-4 p.p.
NPE ratio	**14.6%**	25.2%	-10.6 p.p.
NPE coverage ratio	**60%**	62%	-2 p.p.
Leverage ratio	**7.8%**	8.8%	-1 p.p.
Capital ratios and risk weighted assets[1]	**30.6.2021**	**31.12.2020**	**±**
Common Equity Tier 1 (CET1) ratio (transitional)[2]	**14.2%**	14.8%	-60 bps
Total capital ratio	**19.2%**	18.4%	+80 bps
Risk weighted assets (€ mn)	**11,048**	11,636	-5%

1. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant. 2.The CET1 fully loaded ratio as at 30 June 2021 amounts to 12.9% (compared to 13.1% and 13.3% pro forma for Helix 2 (Portfolios A and B) as at 31 March 2021 and to 12.9% and 13.3% pro forma for Helix 2 (Portfolios A and B) as at 31 December 2020). p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

B. Group Financial Results – Underlying Basis (continued)

B.1 Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2021 between statutory basis and underlying basis

€ mn	Underlying basis	NPE Sales	Other	Statutory basis
Net interest income	152	-	-	152
Net fee and commission income	84	-	-	84
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	8	-	(16)	(8)
Insurance income net of claims and commissions	31	-	-	31
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	6	-	-	6
Other income	7	-	-	7
Total income	**288**	**-**	**(16)**	**272**
Total expenses	**(186)**	**(16)**	**(10)**	**(212)**
Operating profit	**102**	**(16)**	**(26)**	**60**
Loan credit losses	(35)	(16)	4	(47)
Impairments of other financial and non-financial assets	(11)	-	-	(11)
Provisions for litigation, claims, regulatory and other matters	(4)	-	4	-
Profit before tax and non-recurring items	**52**	**(32)**	**(18)**	**2**
Tax	(1)	-	-	(1)
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**51**	**(32)**	**(18)**	**1**
Advisory and other restructuring costs-organic	(18)	-	18	-
Profit after tax - organic* (attributable to the owners of the Company)	**33**	**(32)**	**-**	**1**
Provisions/net loss relating to NPE sales, including restructuring expenses	(32)	32	-	-
Profit after tax (attributable to the owners of the Company)	**1**	**-**	**-**	**1**

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

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

NPE sales

- Total expenses include restructuring costs of €10 mn and other expenses of €6 mn relating to the agreements for the sale of portfolios of NPEs and are presented within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.

- Loan credit losses under the statutory basis include the loan credit losses relating to Project Helix 2 of €2 mn and an amount of €14 mn which represents the effect of discounting the deferred consideration receivable from Project Helix 2 on initial recognition and are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.

Other reclassifications

- Net losses on loans and advances to customers at FVPL of c.€3.5 mn included in 'Loan credit losses' under the underlying basis are included in 'Net (losses)/gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis. Their classification under the underlying basis is done in order to align their presentation with the loan credit losses on loans and advances to customers at amortised cost.

- Net loss on the early redemption of subordinated loan stock of c.€12 mn included in 'Net (losses)/gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis is included in 'Advisory and other restructuring costs-organic' under the underlying basis, since it represents a one-off item.

B. Group Financial Results – Underlying Basis (continued)

B.1 Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2021 between statutory basis and underlying basis (continued)

Other reclassifications (continued)

- Advisory and other restructuring costs of c.€6 mn included in 'Other operating expenses' under the statutory basis are separately presented under the underlying basis since they comprise mainly fees to external advisors in relation to customer loan restructuring activities.

- Provisions for litigation, claims, regulatory and other matters amounting to €4 mn included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis, since they mainly relate to a provision set aside for a potential penalty on investigation by the ECB.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,046 mn at 30 June 2021, compared to €2,064 mn at 31 March 2021 and €2,051 mn at 31 December 2020. Shareholders' equity totalled €1,826 mn at 30 June 2021, compared to €1,844 mn at 31 March 2021 and €1,831 mn at 31 December 2020.

The **Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 14.2% at 30 June 2021, compared to 14.4% at 31 March 2021 and 14.6% pro forma for Project Helix 2 (Portfolios A and B) (referred to as "pro forma for Helix 2"), and to 14.8% at 31 December 2020 and 15.2% pro forma for Helix 2. During 2Q2021, the CET1 ratio was negatively affected mainly by the prudential charge relating to the Group's foreclosed assets (see below), the cost relating to the tender process for the existing Tier 2 Capital Notes and provisions and impairments, and was positively affected by the pre-provision income, the impact of the completion of Project Helix 2 and the decrease in risk-weighted assets (RWAs).

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added back to CET1 each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five years. The impact on the capital position for year 2018 was 5% of the impact on the impairment amount from the initial application of IFRS 9, increased to 15% (cumulative) for year 2019, 30% (cumulative) for year 2020 and 50% (cumulative) for year 2021. This will increase to 75% (cumulative) for year 2022 and will be fully phased in (100%) by 1 January 2023. The phasing-in of the impairment amount from the initial application of IFRS 9 had a negative impact of c.45 bps on the CET1 ratio on 1 January 2021.

The **CET1 ratio on a fully loaded basis** amounted to 12.9% as at 30 June 2021, compared to 13.1% as at 31 March 2021 (and 13.3% pro forma for Helix 2) and 12.9% as at 31 December 2020 (and 13.3% pro forma for Helix 2). On a transitional basis and on a fully phased-in basis, after the transition period is completed, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The **Total Capital ratio** stood at 19.2% as at 30 June 2021, compared to 18.0% as at 31 March 2021 (and 18.3% pro forma for Helix 2) and 18.4% as at 31 December 2020 (and 18.7% pro forma for Helix 2).

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

In the context of the European Central Bank's (ECB's) capital easing measures for COVID-19, in April 2020, the Bank received **an amendment to the December 2019 SREP decision effective as of 12 March 2020**, reducing the Group's **minimum phased-in Common Equity Tier 1 (CET1) capital ratio to 9.7%** (comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%), following the frontloading of the new rules on the Pillar II Requirement composition, to allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET1, initially scheduled to come into effect in January 2021.

The SREP **Total Capital Requirement** remained unchanged **at 14.5%,** comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% in the form of T2 capital), a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. Pillar II add-on capital requirements derive from the SREP, which is a point in time assessment, and are therefore subject to change over time.

In November 2020, the Group received communication from the ECB according to which no SREP decision would be issued for the 2020 SREP cycle and that the 2019 SREP decision (as amended in April 2020) will remain in force, hence leaving the Group's capital requirements unchanged, as well as other requirements established by the 2019 SREP decision (as amended in April 2020). The communication followed a relevant announcement by the ECB earlier in 2020 that the ECB would be taking a pragmatic approach towards the SREP for the 2020 cycle.

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

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

In March 2020, the ECB announced that banks are temporarily allowed to operate below the level of Pillar II Guidance (P2G), the capital conservation buffer (CCB) and the countercyclical buffer (CCyb). In July 2020, the ECB committed to allow banks to operate below the P2G and the combined buffer requirement (CCB, CCyb and O-SII buffer) until at least end of 2022, without automatically triggering supervisory actions.

The European Banking Authority (EBA) final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar I, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice. Following the 2019 SREP decision, the new provisions became effective as of 1 January 2020.

Based on the SREP decisions of prior years, the Company (Bank of Cyprus Holdings PLC) and the Bank were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during 2020. Following the 2020 SREP communication, the Company and the Bank are still under equity dividend distribution prohibition as the 2019 SREP decision (as amended in April 2020) remains in force. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders, which are eligible as CET1 capital. No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company or the Bank.

The ECB, as part of its supervisory role, has completed an onsite inspection and review on the value of the Group's foreclosed assets with reference date 30 June 2019. The findings relate to a prudential charge which will decrease based on the Bank's progress in disposing the properties in scope. The amount has been directly deducted from own funds as at 30 June 2021 resulting in a decrease in the Group's CET1 ratio by c.44 bps as at 30 June 2021.

The Group participated in the ECB SREP Stress Test of 2021, the results of which were published by the ECB on 30 July 2021. For further information please refer to the 'Additional Risk and Capital Management Disclosures' of the 'Interim Financial Report 2021'.

Project Helix 2

In June 2021, the Company completed Project Helix 2 (Portfolios A and B), which refers to the sale of portfolios of loans with a total gross book value of €1,331 mn on completion (of which €1,305 mn relate to non-performing exposures), secured over real estate collateral, to funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), the agreements for which were announced on 3 August 2020 and on 18 January 2021.

The consideration for the sale amounts to c.€560 mn, of which c.€165 mn were received in cash by completion. The remaining amount is payable in four instalments up to December 2025 without any conditions attached. The consideration reflects adjustments resulting from, inter alia, loan repayments received on the Portfolios since the reference date of 30 September 2019. The consideration can be increased through an earnout arrangement, depending on the performance of each of the Portfolios.

The capital impact of Project Helix 2 on the Group's CET1 ratio during 2Q2021 is an increase of c.20 bps, of which c.10 bps arises on completion. Post completion, the transaction is expected to have an additional positive capital impact of c.64 bps on the Group's CET1 ratio on the basis of 30 June 2021 figures, upon the full payment of the deferred consideration and without taking into consideration any positive impact from the earnout, thus making the transaction overall capital accretive.

Further details are provided in Section B.2.5 'Loan portfolio quality'.

Tier 2 Capital Notes

In April 2021, the Company issued €300 mn unsecured and subordinated Tier 2 Capital Notes (the 'New T2 Notes').

Immediately after, the Company and the Bank entered into an agreement pursuant to which the Company on-lent to the Bank the entire €300 mn proceeds of the issue of the New T2 Notes (the 'Tier 2 Loan') on terms substantially identical to the terms and conditions of the New T2 Notes. The Tier 2 Loan constitutes an unsecured and subordinated obligation of the Bank.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Tier 2 Capital Notes (continued)

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

At the same time, the Bank invited the holders of its €250 mn Fixed Rate Reset Tier 2 Capital Notes due January 2027 (the 'Existing T2 Notes') to tender their Existing T2 Notes for purchase by the Bank at a price of 105.50%. As a result, a cost of €12 mn was recorded in the income statement in 2Q2021, whilst at the same time forfeiting the relevant obligation for future coupon payments. This cost resulted in a negative impact of 11 bps on the Group's CET1 ratio as at 30 June 2021. Existing T2 Notes of €43 mn in aggregate nominal amount remain outstanding as at 30 June 2021.

The issuance of the New T2 Notes has resulted in the increase of the Group's Total Capital ratio by c.123 bps as at 30 June 2021, including c.29 bps relating to the outstanding Existing T2 Notes as at 30 June 2021. The Existing T2 Notes are redeemable at the option of the Bank (subject to applicable regulatory consents) in January 2022.

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

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already acknowledged, to maintain the conversion of such DTAs into tax credits.

The Group, in anticipation of modifications in the Law, acknowledges that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The determination and conditions of such amount will be prescribed in the Law to be amended and the amount determined by the Government on an annual basis. Amendments to the Law will need to be adopted by the Cyprus Parliament and published in the Official Gazette of the Republic for the amendments to be effective. The Group, however, understands that contemplated amendments to the Law may provide that the minimum fee to be charged will be 1.5% of the annual instalment and can range up to a maximum amount of €10 mn per year. The Group estimates that such increased fees could range up to €5.3 mn per year (for each tax year in scope i.e. since 2018) although the Group understands that such fee may fluctuate annually as to be determined by the Ministry of Finance. In this respect, an amount of €3 mn was recorded in 4Q2020 to bring the total amount provided for years 2018-2020 to €16 mn, being the maximum expected increased amount for these years (€13 mn in 4Q2019 and €19 mn in FY2019).

Voluntary Staff Exit Plans

In December 2020, the Group completed a targeted voluntary staff exit plan (VEP) at a total cost of €6 mn, recorded in the consolidated income statement in 4Q2020, resulting in a negative impact of c.5 bps on the Group's CET1 ratio as at 31 December 2020. For further information please refer to Section B.3.2 'Total expenses'.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.2. Regulations and Directives

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

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As this was an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Being a Regulation, CRR II is directly applicable in each member state. Member states were required to transpose the CRD V into national law. CRD V was transposed and implemented in Cyprus law in early May 2021. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities, MREL), and most changes became effective as of June 2021. The key changes introduced consist of, among others, changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of MREL requirements and binding Leverage Ratio and Net Stable Funding Ratio (NSFR) requirements.

Some of the amendments were introduced in June 2020 as part of the “CRR quick-fix” which brought forward certain CRR II changes in light of the challenges posed to the banking sector by the COVID-19. The key measures in the CRR quick fix include an extension of the IFRS 9 transitional arrangements for the dynamic component by 2 years, the introduction of a prudential filter on exposures to central governments, regional governments or local authorities at FVOCI, the acceleration of CRR II amendments to exempt certain software assets from capital deduction and to revise the SME discount factors.

B.2.2.2 Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

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

In April 2021, 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 MREL requirement is set at 23.32% of risk weighted assets and 5.91% of Leverage Ratio Exposure (LRE) and must be met by 31 December 2025. Furthermore, the Bank must comply by 1 January 2022 with an interim requirement of 14.94% of risk weighted assets and 5.91% of LRE.** The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) will not be eligible to meet its MREL requirements expressed in terms of risk-weighted assets. The above requirements replace those that were previously applicable. The Bank must comply with the MREL requirement at the consolidated level, comprising the Bank and its subsidiaries.

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

The MREL ratio of the Bank as at 30 June 2021, calculated according to the SRB’s eligibility criteria currently in effect and based on the Bank’s internal estimate, stood at 18.53% of risk weighted assets (RWA) and at 10.17% of LRE.

The issuance of the SP Notes contributed to the Bank’s MREL ratio as a percentage of RWA as at 30 June 2021 c.272 bps. The Bank’s MREL ratio as at 30 June 2021 includes 39 bps relating to the Existing T2 Notes of €43 mn that remain outstanding as at 30 June 2021 and are redeemable at the option of the Bank (subject to applicable regulatory consents) in January 2022.

The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, currently at 3.5% and expected to increase to 4% on 1 January 2022.

The successful Tier 2 capital refinancing in April 2021 and the inaugural issuance of MREL-compliant senior notes in June 2021 are part of the Bank’s funding plan to meet the interim and final MREL requirements. **The MREL interim requirement of 1 January 2022 has already been achieved.**

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity

Funding

Funding from Central Banks

At 30 June 2021, the Bank's funding from central banks amounted to €2,985 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III, compared to €2,692 mn as at 31 March 2021 and €995 mn as at 31 December 2020.

In June 2021 the Bank borrowed an amount of €300 mn under the eighth TLTRO III operation, increasing the borrowing under TLTRO III to €3.0 bn, as the Bank had already borrowed an amount of €1.7 bn under the seventh TLTRO III operation in March 2021 and an amount of €1 bn under the fourth TLTRO III operation in June 2020, despite its comfortable liquidity position, given the favourable borrowing terms, in combination with the relaxation of collateral requirements.

Based on internal estimations (subject to confirmation from the CBC), the Bank has exceeded the benchmark net lending threshold in the period 1 March 2020 - 31 March 2021 and is therefore expected to qualify for a beneficial rate for the period from June 2020 to June 2021. The Bank estimates the NII benefit from its TLTRO III borrowing for the period from June 2020 to June 2021 at c.€7 mn, recognised over the respective period in the income statement.

The potential NII benefit from the TLTRO III borrowing for the period from June 2021 to June 2022 amounts to c.€15 mn, based on current ECB rates and provided the Bank meets the net lending thresholds.

Deposits

Customer deposits totalled €16,801 mn at 30 June 2021 (compared to €16,332 mn at 31 March 2021 and €16,533 mn at 31 December 2020) and increased by 3% in the second quarter and by 2% since the year end.

The Bank's deposit market share in Cyprus reached 34.6% as at 30 June 2021, compared to 34.5% as at 31 March 2021 and 35.0% at 31 December 2020. Customer deposits accounted for 69% of total assets and 76% of total liabilities at 30 June 2021 (compared to 77% of total assets and 85% of total liabilities at 31 December 2020).

The net Loans to Deposits (L/D) ratio stood at 59% as at 30 June 2021 (compared to 64% as at 31 March 2021 and 63% as at 31 December 2020) and decreased by 5 p.p. in the second quarter, mainly due to the completion of Project Helix 2 and the increase in deposits.

Loan Stock

At 30 June 2021 the Group's loan stock (including accrued interest) amounted to €645 mn (compared to €254 mn at 31 March 2021 and €272 mn at 31 December 2020) and relates to unsecured subordinated Tier 2 Capital Notes and senior preferred notes.

In April 2021, the Company issued €300 mn unsecured and subordinated Tier 2 Capital Notes (the 'New T2 Notes'). In addition, Existing T2 Notes of €43 mn remain outstanding as at 30 June 2021. For further information please refer to Section B.2.1 Capital Base. In June 2021, the Bank executed its inaugural MREL transaction issuing €300 mn of senior preferred notes (the "SP Notes"). For further information please refer to Section B.2.2.2 Bank Recovery and Resolution Directive (BRRD) / Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

Liquidity

At 30 June 2021 the Group Liquidity Coverage Ratio (LCR) stood at 303% (compared to 284% at 31 March 2021 and 254% at 31 December 2020), above the minimum regulatory requirement of 100%. The liquidity surplus in LCR at 30 June 2021 amounted to €5.7 bn (compared to €4.9 bn at 31 March 2021 and €4.2 bn at 31 December 2020). The increase in 2Q2021 is mainly due to the issuance of €300 mn senior preferred notes, the completion of Project Helix 2 and the increase in deposits. The increase in 1Q2021 is driven mainly by the increase in the TLTRO III borrowing in March 2021.

The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF). The regulatory limit, enforced in June 2021, has been set at 100% as per CRR II. The NSFR weights under CRR II do not have material deviations from those under Basel III guidelines which the Group followed prior to CRR II enforcement. At 30 June 2021 the Group's NSFR stood at 150% (compared to 140% at 31 March 2021 and 139% at 31 December 2020).

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loans

Group gross loans totalled €10,893 mn at 30 June 2021, compared to €12,281 mn at 31 March 2021 and €12,261 mn at 31 December 2020, reduced by 11% since the year end following the completion of Project Helix 2. Gross loans of the Group's Cyprus operations totalled €10,840 mn at 30 June 2021 accounting for almost all of the Group gross loans.

New lending granted in Cyprus reached €407 mn for 2Q2021 (compared to €487 mn for 1Q2021) and totalled €894 mn for 1H2021 (up by 30% yoy). New lending in 2Q2021 comprised €162 mn of corporate loans, €172 mn of retail loans (of which €124 mn were housing loans), €42 mn of SME loans and €31 mn of shipping and international loans. New corporate loans in 2Q2021 have increased by 64% yoy, as the economic activity continues to improve. At the same time, demand for retail housing loans remains strong, supported by Government schemes, and has increased by 22% qoq.

At 30 June 2021, the Group net loans and advances to customers totalled €9,967 mn (compared to €9,960 mn at 31 March 2021 and €9,886 mn at 31 December 2020). At 30 June 2021, there were no loans and advances to customers classified as held for sale, whereas, at 31 March 2021 net loans and advances to customers of €472 mn were classified as held for sale in line with IFRS 5 and related to Project Helix 2 (comprising €299 mn relating to Portfolio A and €173 mn relating to Portfolio B), compared to €493 mn as at 31 December 2020 relating to Project Helix 2 (€485 mn, comprising €310 mn relating to Portfolio A and €175 mn relating to Portfolio B) and Helix Tail (€8 mn).

The Bank is the single largest credit provider in Cyprus with a market share of 39.1% at 30 June 2021, compared to 42.4% at 31 March 2021 and 41.9% at 31 December 2020. The decrease as at 30 June 2021 is mainly due to the completion of Project Helix 2.

B.2.5 Loan portfolio quality

Tackling the Group's loan portfolio quality remains a top priority for management. The Group has continued to make steady progress across all asset quality metrics and the loan restructuring activity has continued despite challenges brought upon by COVID-19. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. The Group's near-term priorities include completing the balance sheet de-risking, whilst managing the post-pandemic NPE inflow.

The loan credit losses for 2Q2021 totalled €15 mn (excluding 'Provisions/net loss relating to NPE sales, including restructuring expenses'), compared to €20 mn for 1Q2021 and totalled €35 mn for 1H2021, compared to €87 mn in 1H2020. Further details regarding loan credit losses are provided in Section B.3.3 'Profit/(loss) before tax and non-recurring items' below.

Loan moratorium

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. The payment holiday for all these loans expired on 31 December 2020.

Performing loans as at 30 June 2021 under expired payment deferrals amounted to €4.9 bn (compared to €5.1 bn as at 31 March 2021 and €5.3 bn as at 31 December 2020), of which €4.8 bn or 96% had an instalment due by 12 August 2021 with a strong performance; 96% present no arrears (of which €0.5 bn have been restructured) and only 4% are in arrears (of which 95% are less than 30 days-past-due).

Performing loans to **private individuals** as at 30 June 2021 under expired payment deferrals amounted to €1.8 bn, of which 98% had an instalment due by 12 August 2021. Of those, 92% present no arrears (of which c.€28 mn have been restructured) and only 8% are in arrears (of which 96% are less than 30 days-past-due).

Similarly, performing loans to **businesses** as at 30 June 2021 under expired payment deferrals amounted to €3.15 bn, of which 95% had an instalment due by 12 August 2021. Of those, 99% present no arrears (of which €0.47 bn have been restructured, mostly in the tourism sector) and only 1% are in arrears.

In 2Q2021, net reclassifications of €184 mn of loans under expired payment deferrals were made from Stage 1 to Stage 2, following reclassifications of €371 mn of loans under expired payment deferrals from Stage 1 to Stage 2 as a result of management overlays and restructurings, and reclassifications of €187 mn of loans under expired payment deferrals from Stage 2 to Stage 1, mainly due to the good performance after the expiry of the payment deferrals. In addition, reclassifications of €16 mn of loans under expired payment deferrals were made mainly from Stage 2 to Stage 3 in 2Q2021. References made to 'loans under expired payment deferrals' in this paragraph include current account and overdrafts.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Loan moratorium (continued)

The Bank will continue to monitor this portfolio closely, to ensure that potential difficulties in the repayment ability are identified at an early stage, and appropriate solutions are provided to viable customers. To that end, the Bank has enhanced its monitoring process to include transactional analysis to establish funds availability to meet upcoming instalments and performance of daily monitoring of arrears and excesses, as well as NPEs inflows and outflows.

The Bank has a strong track record in dealing with restructurings. Targeted restructuring solutions are offered to alleviate pandemic-related short-term cash flow burden, following rigorous assessment of repayment ability. To date, most restructurings relate to tourism.

Loan impairments related to COVID-19 amounting to €3.5 mn (12 bps) were included in 2Q2021 loan credit losses of €15 mn (cost of risk of 52 bps for 2Q2021), compared to an amount of €9 mn (29 bps) included in 1Q2021 loan credit losses of €20 mn (cost of risk of 66 bps for 1Q2021). Overall, in FY2020, the impact of IFRS 9 FLI driven by the update of the macroeconomic assumptions resulted in a €54 mn charge (43 bps) included in the FY2020 loan credit losses of €149 mn (cost of risk of 1.18%).

Finally, the provision coverage of Stage 3 loans under payment deferrals that expired on 31 December 2020 of c.22% as at 30 June 2021 is considered to be adequate, as it is higher than the coverage of re-performing NPEs (NPEs in the pipeline to exit, subject to meeting all exit criteria) of 19%.

The table below presents the loans under payment deferrals that expired on 31 December 2020, by IFRS 9 staging.

IFRS 9 staging for expired loan payment deferrals (€ bn)

€ bn	**30.6.2021**	**31.3.2021**	31.12.2020
Stage 1	3.58	3.91	3.96
Stage 2	1.62	1.47	1.58
Stage 3	0.25	0.33	0.33
Total	**5.45**[1]	**5.71**	**5.87**

1 Includes overdrafts and current accounts of c.€0.3 bn (31 March 2021: c.€0.3 bn)

A second scheme for the suspension of loan repayments for interest and principal (loan moratorium) was launched in January 2021 for customers impacted by the second lockdown. Payment deferrals were offered to the end of June 2021, however, the total months under loan moratorium, including the loan moratorium offered in 2020, cannot exceed a total of nine months. The application period expired on 31 January 2021 and loans of c.€20 mn were approved for the second moratorium. Close monitoring of the credit quality of loans in moratoria continues.

Following the outbreak of COVID-19, the sectors most adversely affected are tourism, trade, transport, manufacturing and construction. The Group has a well – diversified performing loan portfolio. For further information on the Group's non-legacy loan book exposure to tourism and trade and the performance of these loans after the expiry of the loan moratorium, please refer to Section D. Business Overview.

For further information please refer to the presentation for the Group Financial Results for the six months ended 30 June 2021 (slides 7 to 10 and slide 45).

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Non-performing exposure reduction

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €1,423 mn, or 47%, in 2Q2021 to €1,589 mn at 30 June 2021 (compared to €3,012 mn at 31 March 2021 and €3,086 mn at 31 December 2020). The reduction in 2Q2021 comprises Project Helix 2 loans on completion of €1,305 mn (as explained further below), net organic NPE reductions of €112 mn and further net NPE reductions of €6 mn relating to Project Helix 2 loans during the period until completion (compared to a reduction in NPEs in 1Q2021 by €74 mn, comprising net organic NPE reductions of €59 mn and further net NPE reductions of €15 mn relating to Project Helix 2 loans in 1Q2021).

The NPEs account for 14.6% of gross loans as at 30 June 2021, compared to 24.5% as at 31 March 2021 and 25.2% as at 31 December 2020, down by c.10 percentage points in the quarter, driven by the completion of Project Helix 2.

The NPE coverage ratio stands at 60% at 30 June 2021 (compared to 62% at 31 March 2021 and 31 December 2020), down by 2 percentage points in the quarter following the completion of Project Helix 2. When taking into account tangible collateral at fair value, NPEs are fully covered.

As of 1 January 2021, the new regulation on Definition of Default has been implemented, affecting NPE exposures and the calculation of Days-Past-Due (please refer to Section F. Definitions & Explanations for the changes in the definition). The impact of these changes on the Group on 1 January 2021 is immaterial.

	30.6.2021		31.12.2020	
	€ mn	**% gross loans**	€ mn	% gross loans
NPEs as per EBA definition	**1,589**	**14.6%**	3,086	25.2%
Of which, in pipeline to exit:				
-NPEs with forbearance measures, no arrears[1]	**212**	**1.9%**	303	2.5%

1. The analysis is performed on a customer basis.

Project Helix 2

In June 2021, the Company completed Project Helix 2 (Portfolios A and B), which refers to the sale of portfolios of loans with a total gross book value of €1,331 mn as at the completion date (of which €1,305 mn relate to non-performing exposures) ("Portfolios A and B") secured over real estate collateral, and stock of properties with carrying value amounting to €73 mn, to funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), the agreements for which were announced on 3 August 2020 and on 18 January 2021. The Bank retains the servicing of these Portfolios for a transitional period currently expected to end in early 4Q2021 against a servicing fee (see Section B.3.1).

The consideration for the sale amounts to c.€560 mn, of which c.€165 mn were received in cash by completion. The remaining amount is payable in four instalments up to December 2025 without any conditions attached. The consideration reflects adjustments resulting from, inter alia, loan repayments received on the Portfolios since the reference date of 30 September 2019. The consideration can be increased through an earnout arrangement, depending on the performance of each of the Portfolios.

Project Helix 2 represents a further milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs. Project Helix 2 (Portfolios A and B) reduces the NPE ratio by c.9 percentage points. Overall, since the peak in 2014, the stock of NPEs has been reduced by €13.4 bn or 89% and the NPE ratio by 48.3 percentage points, from 62.9% to 14.6%.

Additional strategies to accelerate de-risking

The Group remains committed to further de-risking its balance sheet and will continue to seek solutions to achieve this. The Group continues to work with its advisors towards the sale of portfolios of NPEs in the future, to further accelerate the decrease in NPEs on the balance sheet through additional sales of NPEs.

B.2. Balance Sheet Analysis (continued)

B.2.6 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. The Group completed disposals of €76 mn in 1H2021 (compared to €24 mn in 1H2020), resulting in a profit on disposal of €7 mn for 1H2021 (compared to a profit on disposal of €3 mn for 1H2020), following the relaxation of restrictive measures. The Group completed disposals of €52 mn in 2Q2021 (compared to €24 mn in 1Q2021 and €10 mn in 2Q2020), resulting in a profit on disposal of €4 mn for 2Q2021 (compared to a profit on disposal of €3 mn for 1Q2021). Asset disposals are across all property classes, with 54% of sales by value in 1H2021 relating to land.

During the six months ended 30 June 2021, the Group executed sale-purchase agreements (SPAs) for disposals with contract value of €85 mn (387 properties), compared to €27 mn (170 properties) for 1H2020. In addition, the Group had a strong pipeline of €85 mn by contract value as at 30 June 2021, of which €48 mn related to SPAs signed (compared to a pipeline of €68 mn as at 30 June 2020, of which €53 mn related to SPAs signed).

REMU on-boarded €21 mn of assets in 1H2021 (compared to additions of €30 mn in 1H2020), via the execution of debt for asset swaps and repossessed properties.

Details with respect to the prudential charge relating to the onsite inspection findings are provided in Section B.2.1 'Capital Base'.

Assets held by REMU

As at 30 June 2021, assets held by REMU had a carrying value of €1,404 mn (comprising properties of €1,285 mn classified as 'Stock of property' and €119 mn as 'Investment properties'), compared to €1,473 mn as at 31 December 2020 (comprising properties of €1,350 mn classified as 'Stock of property' and €123 mn as 'Investment properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €8 mn as at 30 June 2021 (compared to €5 mn as at 31 December 2020), relate to legacy properties held by the Group before the set-up of REMU in January 2016.

Assets held by REMU (Group) **€ mn**	**1H2021**	**1H2020**	**2Q2021**	**1Q2021**	qoq ±%	yoy ±%
Opening balance	**1,473**[1]	**1,506**[1]	1,449[1]	1,473[1]	-2%	-2%
On-boarded assets (including construction cost)	**21**	**30**	10	11	-14%	-30%
Sales	**(76)**	**(24)**	(52)	(24)	113%	222%
Net impairment loss	**(9)**	**(29)**	(3)	(6)	-53%	-71%
Transfer to non-current assets and disposal groups held for sale	**(5)**	**(11)**	-	(5)	-	-47%
Closing balance	**1,404**	**1,472**[1]	1,404	1,449[1]	-3%	-5%

1 Following certain segmental reclassifications to better align with current management information, investment properties of €16 mn as at 30 June 2021 (31 December 2020: €16 mn) relating to land, have been transferred under REMU. Comparative information was restated to account for this change.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

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

Analysis by type and country **30 June 2021 (€ mn)**	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	**143**	**24**	**0**	**167**
Offices and other commercial properties	**237**	**26**	**4**	**267**
Manufacturing and industrial properties	**69**	**25**	**0**	**94**
Hotels	**25**	**-**	**-**	**25**
Land (fields and plots)	**582**	**5**	**2**	**589**
Golf courses and golf-related property	**262**	**-**	**-**	**262**
Total	**1,318**	**80**	**6**	**1,404**

31 December 2020 (restated)[1] (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	158	24	0	182
Offices and other commercial properties	240	26	5	271
Manufacturing and industrial properties	74	29	0	103
Hotels	24	1	-	25
Land (fields and plots)	622	6	2	630
Golf courses and golf-related property	262	-	-	262
Total	1,380	86	7	1,473

1 Following certain segmental reclassifications to better align with current management information, investment properties of €16 mn as at 30 June 2021 (31 December 2020: €16 mn) relating to land, have been transferred under REMU. Comparative information was restated to account for this change.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	1H2021	1H2020	2Q2021	1Q2021	qoq ±%	yoy ±%
Net interest income	152	168	76	76	-1%	-9%
Net fee and commission income	84	71	45	39	18%	18%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	8	12	6	2	122%	-35%
Insurance income net of claims and commissions	31	29	18	13	36%	7%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	6	0	4	2	66%	-
Other income	7	8	3	4	-17%	-18%
Non-interest income	**136**	**120**	**76**	**60**	26%	12%
Total income	**288**	**288**	**152**	**136**	11%	0%
Net Interest Margin (annualised)[1]	1.56%	1.90%	1.49%	1.63%	-14 bps	-34 bps
Average interest earning assets (€ mn)[1]	19,652	17,741	20,381	18,978	7%	11%

1. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Net interest income (NII) for 1H2021 amounted to €152 mn, compared to €168 mn in 1H2020, down by 9% yoy mainly due to continuing pressure from the low interest rate environment, lower volume of loans, as well as lower interest collections on NPEs, partially offset by the reduction in cost of deposits and the increase in TLTRO III in March 2021. Net interest income (NII) for 2Q2021 amounted to €76 mn, at the same levels as for 1Q2021.

The net interest income (NII) includes an amount of €15 mn for 1H2021 and c.€8 mn for 2Q2021 which relates to the net interest income of the loans included in Helix 2 (Portfolios A and B) which has been derecognised as of 30 June 2021, following completion in June 2021. The reduction in NII as a result of the completion of Project Helix 2 will be partially set off by an amount of €5 mn in 2H2021 and c.€8.5 mn p.a. in 2022-2023 relating to the unwinding of the net present value and interest income of the deferred consideration, reducing thereafter on the basis of repayments and assuming no early repayment in 2023.

Average interest earning assets (AIEA) for 1H2021 amounted to €19,652 mn, up by 11% yoy driven by the increase in liquid assets following the increase in the borrowing under TLTRO III by €2.0 bn in 1H2021. Quarterly average interest earning assets for 2Q2021 amounted to €20,381 mn, up by 7% qoq, mainly due to the increase in liquid assets following the increase in customer deposits by c.€470 mn, the increase in the borrowing under TLTRO III by €300 mn in June 2021, the proceeds from the issuance of the senior preferred notes of €300 mn and the net proceeds from the refinancing of the Tier 2 Capital Notes of c.€75 mn.

Net interest margin (NIM) for 1H2021 amounted to 1.56% (compared to 1.90% for 1H2020) negatively impacted by the decrease in NII and the increase in average interest earning assets. Net interest margin (NIM) for 2Q2021 amounted to 1.49% (compared to 1.63% in 1Q2021) negatively impacted mainly by the increase in the quarterly average interest earning assets. Adjusting for the TLTRO III of €3.0 bn (i.e. removing the TLTRO from AIEA and the respective benefit recognised over the period from the Net interest income), the NIM amounts to 1.71% for 1H2021 and to 1.66% for 2Q2021, compared to 1.77% for 1Q2021.

Non-interest income for 1H2021 amounted to €136 mn (compared to €120 mn for 1H2020), up by 12% yoy, comprising net fee and commission income of €84 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €8 mn, net insurance income of €31 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €6 mn and other income of €7 mn. The yoy increase is driven by higher net fee and commission income, as well as higher REMU disposal gains and lower revaluation losses on investment properties.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Non-interest income for 2Q2021 amounted to €76 mn (compared to €60 mn for 1Q2021), up by 26% qoq, comprising net fee and commission income of €45 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €6 mn, net insurance income of €18 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €4 mn and other income of €3 mn. The qoq increase is mainly due to higher net fee and commission income, higher net insurance income and higher revaluation gains on financial instruments.

Net fee and commission income for 1H2021 amounted to €84 mn (compared to €71 mn for 1H2020, up by 18% yoy) which includes an amount of c.€5 mn relating to an NPE sales-related servicing fee, for a transitional period currently expected to end in early 4Q2021. Net fee and commission income for 2Q2021 amounted to €45 mn, compared to €39 mn for 1Q2021 (up by 18% qoq), mainly due to the extension of liquidity fees to a broader pool of customers and the introduction of a revised price list in February 2021, as well as higher volume of transactions in 2Q2021 following the lockdown in the previous quarter. Net fee and commission income for 2Q2021 includes a fee of c.€2 mn relating to a specific client transaction.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €8 mn for 1H2021 (comprising net foreign exchange gains of €7 mn and net gains on financial instrument transactions of €1 mn), compared to €12 mn for 1H2020 and decreased by 35% yoy. The decrease yoy is mainly driven by the lower net foreign exchange gains in 1H2021, impacted by the lockdown.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €6 mn for 2Q2021 (comprising net foreign exchange gains of €3 mn and net gains on financial instrument transactions of €3 mn), compared to €2 mn for 1Q2021 (up by 122% qoq). The qoq increase is mainly driven by higher revaluation gains on financial instruments.

Net insurance income of €31 mn for 1H2021, compared to €29 mn for 1H2020, up by 7% yoy, driven by lower claims and improved commissions in the life insurance business. Net insurance income of €18 mn in 2Q2021, compared to €13 mn in 1Q2021, up by 36% qoq, driven by better quarterly performance of investments (c.€2 mn), lower claims and improved pricing in the life insurance business, and growth in premiums, lower claims and seasonality in the general insurance business.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 1H2021 amounted to €6 mn (comprising a profit on disposal of stock of properties of €7 mn and net losses from revaluation of investment properties of €1 mn), compared to Nil in 1H2020 which had been impacted by the lockdown measures.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 2Q2021 amounted to €4 mn (comprising a profit on disposal of stock of properties of c.€4.5 mn and net losses from revaluation of investment properties of c.€0.5 mn), compared to €2 mn in 1Q2021. REMU profit remains volatile.

Total income for 1H2021 amounted to €288 mn, flat yoy. Total income for 2Q2021 amounted to €152 mn, compared to €136 mn for 1Q2021 (up by 11% qoq).

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	1H2021	1H2020	2Q2021	1Q2021	qoq ±%	yoy ±%
Staff costs	(101)	(96)	(51)	(50)	2%	5%
Other operating expenses	(70)	(69)	(38)	(32)	14%	1%
Total operating expenses	(171)	(165)	(89)	(82)	7%	3%
Special levy on deposits and other levies/contributions	(15)	(15)	(6)	(9)	-32%	0%
Total expenses	**(186)**	**(180)**	**(95)**	**(91)**	3%	3%
Cost to income ratio[1]	64%	62%	62%	67%	-5 p.p.	+2 p.p.
Cost to income ratio excluding special levy on deposits and other levies/contributions[1]	59%	57%	58%	60%	-2 p.p.	+2 p.p.

1. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Total expenses for 1H2021 were €186 mn (compared to €180 mn for 1H2020, up by 3% yoy), 54% of which related to staff costs (€101 mn), 38% to other operating expenses (€70 mn) and 8% (€15 mn) to special levy on deposits and other levies/contributions. Total expenses for 2Q2021 were €95 mn compared to €91 mn for 1Q2021, up by 3% qoq. The yoy increase of 3% is driven by the 5% yoy increase in staff costs. The qoq increase of 3% is driven by the 14% qoq increase in other operating expenses. More information on these is provided further below.

Total operating expenses for 1H2021 were €171 mn, compared to €165 mn for 1H2020 (up by 3% yoy). Total operating expenses for 2Q2021 were €89 mn, compared to €82 mn for 1Q2021 (up by 7% qoq).

Staff costs for 1H2021 were €101 mn, compared to €96 mn for 1H2020 (up by 5% yoy). Staff costs for 2Q2021 were €51 mn, compared to €50 mn for 1Q2021 (up by 2% qoq). The Group employed 3,558 as at 30 June 2021, compared to 3,557 as at 31 March 2021 and 3,573 as at 31 December 2020.

In December 2020, the Group completed a targeted voluntary staff exit plan (VEP) with a total cost of €6 mn, recorded in the consolidated income statement in 4Q2020 (as a non-recurring item in the underlying basis). The gross annual savings are estimated at c.€2 mn or c.1% of staff costs.

In July 2021, the Bank reached agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement for the years 2021 and 2022. The agreement relates to certain changes including the introduction of a new pay grading structure linked to the value of each position of employment, and of a performance-related pay component as part of the annual salary increase, both of which have been long-standing objectives of the Bank and are in line with market best-practice. This renewal is expected to increase staff costs for 2021 and 2022 by 3-4% per annum, in line with the impact of renewals in previous years. The Group's medium-term guidance, which includes maintaining annual 'total operating expenses' below €350 mn, remains unchanged.

Other operating expenses for 1H2021 were €70 mn, compared to €69 mn for 1H2020 (up by 1% yoy). Other operating expenses for 2Q2021 were €38 mn, compared to €32 mn for 1Q2021 (up by 14% qoq), mainly due to seasonally lower marketing, consultancy and professional fees in the previous quarter.

Special levy on deposits and other levies/contributions for 1H2021 amounted to €15 mn, flat yoy. Special levy on deposits and other levies/contributions for 2Q2021 amounted to €6 mn (compared to €9 mn for 1Q2021), down by 32% qoq, owing to the €3 mn contribution of the Bank to the Deposit Guarantee Fund (DGF) which relates to 1H2021 and was recorded in 1Q2021, in line with IFRSs.

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

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses (continued)

The **cost to income ratio excluding special levy on deposits and other levies/contributions** for 1H2021 was 59%, compared to 57% for 1H2020 (up by 2 p.p. yoy). The cost to income ratio excluding special levy on deposits and other levies/contributions for 2Q2021 was 58%, compared to 60% for 1Q2021, with the improvement of 2 p.p. qoq reflecting a higher qoq increase in total income, compared to the qoq increase in total operating expenses.

Adjusting for the interest income on the Helix 2 Portfolios, the cost to income ratio excluding special levy on deposits and other levies/contributions for 1H2021 increases to 62%, compared to 60% for 1H2020 (up by 2 p.p. yoy), whilst for 2Q2021 was 61%, compared to 64% for 1Q2021 (down by 3 p.p qoq).

The cost to income ratio excluding special levy on deposits and other levies/contributions is expected to rise in the near term as revenues remain under pressure and operating expenses increase due to higher IT/digitisation investment costs, whilst it is expected to decrease to mid-50% in the medium term.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 Profit/(loss) before tax and non-recurring items

€ mn	1H2021	1H2020	2Q2021	1Q2021	qoq ±%	yoy ±%
Operating profit	**102**	**108**	**57**	**45**	28%	-6%
Loan credit losses	(35)	(87)	(15)	(20)	-25%	-60%
Impairments of other financial and non-financial assets	(11)	(29)	(6)	(5)	12%	-62%
Provisions for litigation, claims, regulatory and other matters	(4)	(4)	(3)	(1)	-	8%
Total loan credit losses, impairments and provisions	**(50)**	**(120)**	**(24)**	**(26)**	-6%	-58%
Profit/(loss) before tax and non-recurring items	**52**	**(12)**	**33**	**19**	74%	-
Cost of risk[1]	**0.61%**	**1.39%**	**0.52%**	**0.66%**	-14 bps	-78 bps

1. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Operating profit for 1H2021 was €102 mn, compared to €108 mn for 1H2020 (down by 6% yoy). Operating profit for 2Q2021 was €57 mn, compared to €45 mn for 1Q2021 (up by 28% qoq), mainly due to higher total income qoq.

Loan credit losses for 1H2021 totalled €35 mn, compared to €87 mn for 1H2020. Loan credit losses for 2Q2021 totalled €15 mn, compared to €20 mn for 1Q2021.

The annualised loan credit losses charge (**cost of risk**) for 1H2021 accounted for 0.61% of gross loans, of which 21 bps reflect loan impairments related to COVID-19 (compared to an annualised loan credit losses charge of 1.39% for 1H2020, of which 59 bps reflect loan impairments related to COVID-19). Cost of risk for 2Q2021 amounted to 52 bps (€15 mn), of which 12 bps (€3.5 mn) reflect loan impairments related to COVID-19, compared to a cost of risk of 66 bps (€20 mn) for 1Q2021, of which 29 bps (€9 mn) reflect loan impairments related to COVID-19. Further details on the loan moratorium are provided in Section B.2.5 'Loan portfolio quality'.

At 30 June 2021, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €947 mn (compared to €1,869 mn at 31 March 2021 and €1,902 mn at 31 December 2020) and accounted for 8.7% of gross loans (compared to 15.2% and 15.5% of gross loans including portfolios held for sale at 31 March 2021 and at 31 December 2020 respectively). The decrease in the allowance for expected loan credit losses in 2Q2021 amounted to €922 mn (compared to a decrease of €33 mn in 1Q2021), following the completion of Project Helix 2.

Impairments of other financial and non-financial assets for 1H2021 amounted to €11 mn, compared to €29 mn for 1H2020 (down by 62% yoy), driven by lower revaluation losses on properties yoy. Impairments of other financial and non-financial assets for 2Q2021 amounted to €6 mn, compared to €5 mn for 1Q2021 (up by 12% qoq).

Provisions for litigation, claims, regulatory and other matters for 1H2021 totalled €4 mn, at the same levels as for 1H2020. Provisions for litigation, claims, regulatory and other matters for 2Q2021 totalled €3 mn (compared to €1 mn for 1Q2021) and relates mainly to a potential fine to be imposed on the Bank relating to the findings of a regulatory investigation with regards to transfer of liquidity by the Bank to its subsidiaries in the period 2016-2017 allegedly without prior regulatory approval.

Profit before tax and non-recurring items for 1H2021 totalled €52 mn, compared to a loss of €12 mn for 1H2020. Profit before tax and non-recurring items for 2Q2021 totalled €33 mn, compared to €19 mn for 1Q2021 (up by 74% qoq).

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

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

€ mn	**1H2021**	**1H2020**	**2Q2021**	**1Q2021**	qoq ±%	yoy ±%
Profit/(loss) before tax and non-recurring items	**52**	**(12)**	**33**	**19**	74%	-
Tax	(1)	(5)	1	(2)	-	-77%
(Profit)/loss attributable to non-controlling interests	(0)	4	(0)	(0)	59%	-
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	**51**	**(13)**	**34**	**17**	99%	-
Advisory and other restructuring costs – organic	(18)	(6)	(15)	(3)	-	-
Profit/(loss) after tax – organic (attributable to the owners of the Company)	**33**	**(19)**	**19**	**14**	30%	-
Provisions/net loss relating to NPE sales, including restructuring expenses[1]	(32)	(107)	(26)	(6)	-	-70%
Profit/(loss) after tax (attributable to the owners of the Company)	**1**	**(126)**	**(7)**	**8**	-	-

1. 'Provisions/net (loss) relating to NPE sales, including restructuring expenses' refer to the net loss on transactions completed, net loan credit losses on transactions under consideration, as well as the restructuring costs relating to these trades. For further details please see below. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

The **tax charge** for 1H2021 is €1 mn, compared to €5 mn for 1H2020. The tax credit for 2Q2021 is €1 mn, compared to a tax charge of €2 mn for 1Q2021.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for 1H2021 was €51 mn, compared to a loss of €13 mn for 1H2020. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 2Q2021 was €34 mn, compared to €17 mn for 1Q2021. Return on Tangible Equity (ROTE) before non-recurring items calculated using 'profit after tax and before non-recurring items (attributable to the owners of the Company)' amounts to 8.1% for 2Q2021 and 6.1% for 1H2021.

Advisory and other restructuring costs - organic for 1H2021 amounted to €18 mn, compared to €6 mn for 1H2020. Advisory and other restructuring costs - organic for 2Q2021 amounted to €15 mn (compared to €3 mn for 1Q2021), of which €12 mn related to the tender offer for Existing Tier 2 Capital Notes (due January 2027) with aggregate nominal amount of €207 mn, thereby forfeiting the relevant obligation for future coupon payments.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for 1H2021 amounted to €33 mn, compared to a loss of €19 mn for 1H2020. Profit after tax arising from the organic operations (attributable to the owners of the Company) for 2Q2021 amounted to €19 mn, compared to €14 mn for 1Q2021.

Provisions/net loss relating to NPE sales, including restructuring expenses for 1H2021 was €32 mn (compared to €107 mn for 1H2020). Provisions/net loss relating to NPE sales, including restructuring expenses for 2Q2021 was €26 mn (compared to €6 mn for 1Q2021), which includes an amount of €14 mn relating to the completion mechanics for Project Helix 2, expected to unwind over time in 'net interest income' until the full payment of the deferred consideration. Restructuring costs relating to NPE sales of €6 mn for 2Q2021 were also included, compared to €4 mn for 1Q2021.

Profit after tax attributable to the owners of the Company for 1H2021 was €1 mn (compared to a loss of €126 mn for 1H2020). Loss after tax attributable to the owners of the Company for 2Q2021 was €7 mn (compared to a profit of €8 mn for 1Q2021).

C. Operating Environment

Following a contraction by 5.1% in 2020 and a modest drop by 2.1% in the first quarter of 2021, year-on-year, real GDP seasonally adjusted in Cyprus increased steeply by 12.9% in the second quarter. This partly reflects base effects given that second quarter GDP in 2020 had dropped by 12.5%. Growth was driven by the sectors that were most severely impacted by the pandemic the year before, namely tourism, construction, manufacturing, transport and trade. The recovery under way appears solid, and the outlook for the medium term is positive. Driven by the gradual recovery of the tourism sector and other business services, and supported by the EU's resilience and recovery funds, real GDP is expected to grow by c.5.5% in 2021 according to the Ministry of Finance (significantly higher than initially anticipated; c.3.6% in April 2021) and by 4.3% in 2021 and by 3.8% in 2022 according to the European Commission's latest summer European forecasts.

In the EU as well, the GDP contraction in the first quarter of the year was marginal, and milder than initially anticipated. Second quarter growth rates are not yet available for all countries, but preliminary results reported thus far, point to a very strong rebound, reflecting the impact of the lifting of restrictions during the quarter. Consumer confidence and service sector activity picked up sharply, catching up with already resurgent manufacturing activity. The European Commission, in their summer European forecasts, expects annual GDP growth of 4.8% in 2021 and 4.5% in 2022.

At another development, the ECB kept its policy stance unchanged at its meeting on 22 July 2021 and reaffirmed its commitment to continue purchases under the pandemic emergency purchase programme at a 'significantly higher pace'. The most important change was the adjustment of the forward guidance on interest rates as a consequence of its strategic review which was announced in early July. The main decision was to adopt a symmetric 2% inflation target compared with previously defined price stability of inflation below but close to 2%. Hence, inflation that temporarily surpasses 2% will not automatically trigger a policy tightening.

Recovery in international tourism in Cyprus has started to accelerate from July 2021. Tourist arrivals in July 2021 increased significantly compared to July 2020 (+358% yoy) and reached 54% of the levels in July 2019. Tourist arrivals in August and September 2021 are expected to show similar trends. The reduction in international tourist arrivals in 2021 compared to the pre-pandemic levels of 2019 is expected to be partially offset by domestic tourism.

Other short-term indicators point in the direction of strong recovery in the year on average. Indices of construction activity increased strongly and building permits were up in January-May by 35.4% and 38.2% respectively for volume and dwellings. The index of industrial production was up 9.6% in January-May driven by a 12.2% increase in manufacturing. On the demand side, the volume of retail sales excluding vehicles were up by 8.2% also in January-May and total vehicle registrations increased by 18.6% in the second quarter. In housing, total sales almost doubled in the second quarter after more than halving in the same period the year before.

Consumer inflation rose to 3.1% in the second quarter after dropping by 1.4% in the first and rose by 4.0% in July, bringing the seven-month year-on-year average to 1.1%. The acceleration of inflation in the second quarter was driven by clothing items, housing, and transportation costs. The latter two reflect higher energy and shipping costs.

Public finances deteriorated sharply in 2020 as a result of the government's response to the coronavirus pandemic. Cyprus recorded a deficit of 5.7% of GDP in 2020 compared with a surplus of 1.5% of GDP in 2019. The budget deficit can be expected to moderate in 2021 but to remain sizeable nonetheless, and to diminish subsequently as the economy strengthens and the government scales back its spending. Public debt rose to 119.1% of GDP in 2020 and can be expected to decline gradually in the medium term.

In the banking sector, total non-performing exposures at the end of May 2021 were €5.16 bn compared with €5.14 bn at the end of December 2020. Non-performing exposures were 18.0% of gross loans at the end of May 2021 compared with 17.7% of gross loans at end December 2020 and 28.0% at the end of 2019. The non-performing exposures ratio in the non-financial companies' segment was 14.8% at the end of May 2021 and that for households was at 23.7%. The coverage ratio was 51.2% at end May 2021.

Following the financial crisis of 2012-2014, economic recovery was relatively solid and real GDP increased at an annual pace of 4.6% on average in 2015-2019. The coronavirus pandemic reversed some of these gains and real GDP contracted by 5.1% in 2020. The contraction was less steep than the Eurozone average of 6.4% despite Cyprus' considerable exposure to the pandemic shock and its impact on travel and tourism. Tourist arrivals and receipts declined by about 85% in 2020. The impact was mitigated by strong government support for households and businesses. The European Commission forecasts a strong recovery in 2021-2022 driven mainly by domestic demand. Most restrictions were lifted in May and a partial rebound in tourist activity will help restore the economy to growth especially in the second half of the year. The main risk concerns the epidemiological outlook, however the government's vaccination plan is well underway.

C. Operating Environment (continued)

Real economic activity in the medium term is expected to be supported by the recovery in tourism and to be aided by higher investment activity linked with the Recovery and Resilience Fund through which Cyprus is set to receive €1.2 bn or 5.5% of its GDP in 2021-2026. Effectiveness will depend on the implementation of structural reforms, mainly to improve the efficiency of the judiciary and of the public and local administration. Effectiveness will also depend on absorption capacity and whether the funds are directed towards productive investment and activities. Separately, in August 2021, the European Commission approved the loan government guarantee scheme of c.€1.0 bn to facilitate liquidity (guarantee of 70%); the amended legislation is pending approval by Parliament.

Sovereign ratings

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system.

Most recently in July 2021, **Moody's Investors Service** upgraded the Government of Cyprus' long-term issuer and senior unsecured ratings to Ba1 from Ba2 (since July 2018) and changed the outlook from positive to stable. The primary driver for the upgrade was the material improvement in the underlying credit strength of the domestic banking system, which also reduces the risks of a systemic banking crisis.

S&P Global Ratings maintains an investment grade rating of BBB- with a stable outlook since September 2018. The rating and the outlook were affirmed in March and September 2020, and in March 2021. In March 2021, S&P Global Ratings affirmed its rating and outlook, balancing the risks from the pandemic's protracted adverse impact on growth, fiscal, and banking sector performance against benefits of the EU's Recovery and Resilience Facility (RRF) transfers, as well as further improvement in the government's debt profile.

Fitch Ratings maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020, and in March 2021. Its outlook was upgraded to positive in October 2019 and revised to stable in April 2020, reflecting the significant impact the global COVID-19 pandemic might have on the Cyprus economy and fiscal position. The stable outlook was affirmed in March 2021.

In May 2021, **DBRS Ratings** confirmed Cyprus' Long-Term Foreign and Local Currency Issuer Ratings at BBB (low) with a stable trend reflecting a balanced view on the risks despite the deterioration in public finances caused by the COVID-19 pandemic. According to the ratings firm, Cyprus' ratings are supported by a prudent public debt management framework, a good track record in fiscal deficit reduction, Eurozone membership fostering sustainable macroeconomic policies, and openness to investment encouraging a favourable business environment.

D. Business Overview

Credit ratings

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In July 2021, Moody's Investors Service upgraded the Bank's long-term deposit rating to B1 from B3, maintaining the positive outlook. In January 2021, Fitch Ratings affirmed their long-term issuer default rating of B- (negative outlook). In April 2020, Fitch Ratings revised their outlook to negative, reflecting the significant impact the outbreak of COVID-19 might have on the Cypriot economy and consequently on the Bank. In July 2020, Standard and Poor's affirmed their long-term issuer credit rating on the Bank of B+ (stable outlook).

COVID-19 impact

The Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. Strong recovery in economic activity marked the second quarter of the year, against the backdrop of increasing vaccination coverage across Cyprus and relaxation of restrictions. At the same time, the Group has continued its focus on providing support to its customers, colleagues and community.

Statistics are encouraging, as 78% of the adult population in Cyprus have been vaccinated with the first dose and 74% have completed their vaccination regime (Ministry of Health, as of 28 August 2021).

Upon the outbreak of COVID-19 in March 2020, the Pandemic Incident Management Plan of the Group was invoked and a dedicated team (Pandemic Incident Management Team) has been monitoring the situation domestically and globally and providing guidance on health and safety measures, travel advice and business continuity for the Group. Local government guidelines are being followed in response to the virus.

In accordance with the Pandemic Plan, the Group adopted a set of measures, which are still in place according to the current pandemic status, to ensure minimum disruption to its operations. The Pandemic Incident Management Team and the Crisis Management Committee continue to closely monitor the dynamic COVID-19 pandemic developments and status. The measures comprise rules for quarantine for vulnerable employees due to health conditions and for those returning from epicentres of the infection. The Group replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. Staff of critical functions have been split into separate locations. In addition, to ensure continuity of business, a number of employees have been working from home and the remote access capability has been upgraded significantly, whilst at the same time maintaining relevant control procedures to ensure authorisation in line with the Group's governance structure. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers.

The potential economic implications for the sectors in which the Group is active have been assessed and possible mitigating actions for supporting the economy have been identified, such as supporting viable affected businesses and households with new lending to cover liquidity, working capital, capital expenditure and investments related to the activity of the borrower.

The package of policy measures announced by the ECB and the European Commission, as well as the unprecedented fiscal and other measures of the Cyprus Government, have helped and should continue to help reduce the negative impact and support the recovery of the Cypriot economy.

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. The payment holiday for all these loans expired on 31 December 2020.

Performing loans as at 30 June 2021 under expired payment deferrals amounted to €4.9 bn (compared to €5.1 bn as at 31 March 2021 and €5.3 bn as at 31 December 2020), of which €4.8 bn or 96% had an instalment due by 12 August 2021 with a strong performance; 96% present no arrears (of which €0.5 bn have been restructured) and 4% are in arrears.

Further details are provided in Section B.2.5 'Loan portfolio quality'. Close monitoring of the credit quality of these loans continues and customers with early arrears are offered solutions. The Bank has a strong track record in dealing with restructurings. Targeted restructuring solutions are offered to alleviate pandemic-related short-term cash flow burden, following rigorous assessment of repayment ability.

Following the outbreak of COVID-19, the sectors most adversely affected are tourism being the sector with the highest impact, and trade, transport, manufacturing and construction with medium impact. The Group has a well – diversified performing loan portfolio.

D. Business Overview (continued)

COVID-19 impact (continued)

As at 30 June 2021, the Group's non-legacy loan book exposure to tourism was limited to €1.14 bn (out of a total non-legacy loan book of €9.4 bn), of which c.€0.93 bn of performing loans as at 30 June 2021 were under expired payment deferrals. 94% of those had an instalment due by 12 August 2021 and of those, c.100% present no arrears (of which c.€281 mn have been restructured).

Tourism is demonstrating signs of recovery. Tourist arrivals in July 2021 have increased by 358% yoy and amount to 54% of July 2019 levels, whilst the reduction in international tourist arrivals in 2021 compared to 2019 is expected to be partly offset by domestic tourism. It is important to note, that the majority of 'accommodation' customers entered the crisis with significant liquidity, following strong performance in recent years and that 96% of the tourism portfolio is secured by property. Close monitoring of developments continues.

Respectively, as at 30 June 2021 the Group's non-legacy loan book exposure to trade was €0.91 bn, of which €0.32 bn of performing loans as at 30 June 2021 were under expired payment deferrals. 94% of those had an instalment due by 12 August 2021 and of those, 97% present no arrears (of which €10 mn have been restructured) and 3% present arrears. It is important to note that c.29% of the exposure to trade relates to lower-risk essential retail services, not materially impacted by the pandemic.

Strategic priorities for the medium term

The Bank's medium-term strategic priorities remain clear, with a sustained focus on **strengthening its balance sheet, and improving asset quality and efficiency, whilst maintaining a good capital position**, in order to continue to play a vital role in supporting the recovery of the Cypriot economy. The Group continues to explore opportunities to **grow revenues in a more capital efficient way and to improve efficiency through its digital transformation programme** in order to provide products and services while reducing operating costs. In addition, the Bank is looking **to enhance its organisational resilience and ESG (Environmental, Social and Governance) agenda** by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities.

Completing balance sheet de-risking

Tackling the Bank's loan portfolio quality is of utmost importance for the Group.

In June 2021, the Company completed Project Helix 2 (Portfolios A and B), which refers to the sale of portfolios of loans with a total gross book value of €1,331 mn as at the completion date (of which €1,305 mn relate to non-performing exposures) ("Portfolios A and B"), secured over real estate collateral, to funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), the agreements for which were announced on 3 August 2020 and on 18 January 2021.

Project Helix 2 represents a further milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs. Project Helix 2 (Portfolios A and B) reduces the NPE ratio by c.9 percentage points. Overall, since the peak in 2014, the stock of NPEs has been reduced by €13.4 bn or 89% and the NPE ratio by 48.3 percentage points, from 62.9% to 14.6%.

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

The Group remains committed to further de-risking its balance sheet and will continue to seek solutions to achieve this. The Group continues to work with its advisors towards the sale of portfolios of NPEs in the future, to further accelerate the decrease in NPEs on the balance sheet through additional sales of NPEs. At the same time, following the outbreak of COVID-19 and the expiration of the 2020 loan moratorium at the end of year 2020, the Group continues to closely monitor the performance of loans under expired payment deferrals and nearly eight months after deferral expiry, the performance is better than initially expected.

Following the outbreak of COVID-19, all foreclosures were suspended between March – August 2020, and then between January – March 2021 but only for specific categories including primary residences with open market value up to €350 thousand. In early May 2021, further legislation was enacted by the Cyprus Parliament by which foreclosures were suspended until the end of July 2021, for primary residences with open market value up to €500 thousand, premises of very small businesses (with annual turnover up to €2 mn and less than 10 employees), and agricultural fields with open market value up to €250 thousand. Parliament voted a further suspension with smaller scope until the end of October 2021 for primary residences with open market value up to €350 thousand, premises of very small businesses (with annual turnover up to €750 thousand and less than 10 employees), and agricultural fields with open market value up to €100 thousand. This legislation has not as yet been enacted and it has been forwarded to the Supreme Court to decide on whether or not the suspension is in line with the constitution.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Growing revenues in a more capital efficient way

The accelerated de-risking of the balance sheet increases pressure on revenues in the near term. There are multiple initiatives underway to increase net interest income and less capital-intensive non-interest income, with a focus on fees, insurance and non-banking business.

The Group continues to provide high quality new loans via prudent underwriting standards. Growth in new lending in Cyprus has been focused on selected industries more in line with the Bank's target risk profile, and following the outbreak of COVID-19, the focus remains to support the Cypriot economy in order to overcome the crisis. During the six months ended 30 June 2021, new lending amounted to €894 mn, increased by 30% compared to the same period last year, as demand for new loans is picking up, driven mainly by corporate (up by 30% yoy for 1H2021 and up by 64% yoy for 2Q2021), as economic activity continues to improve. At the same time, the demand for retail housing loans remains above pre-COVID levels, supported by the Government interest rate subsidy scheme. The pipeline for new housing loans remains strong at over €100 mn as at mid-August 2021, whilst new housing loans of c.€220 mn have been approved by the Bank since the beginning of the scheme until end-July 2021.

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

In common with other European banks, the prolonged low interest rate environment also continues to present a challenge to the Group's profitability. Over the medium-term, the Group aims to grow its performing book by c.10%, as well as to grow shipping and international corporate lending with prudency.

At the same time, in order to further optimise its funding structure, the Bank continues to focus on the shape and cost of deposit franchise, taking advantage of the increased customer confidence towards the Bank. The cost of deposits has been reduced by 73 bps to 3 bps since December 2017. Moreover, liquidity fees for specific customer groups were introduced in March 2020. The introduction of liquidity fees to a broader group of corporate clients, that was delayed due to the COVID-19 pandemic, was implemented as of 1 February 2021. Separately, a new price list for charges and fees was also implemented as of 1 February 2021, with the positive impact from both initiatives to be estimated at c.€13 mn per annum. Transactional fee volumes have started to recover gradually to pre-COVID-19 levels, as the Cypriot economy recovers.

In the medium-term, the Group aims to increase the average product holding through cross selling to the under-penetrated customer base, as well as to introduce the Digital Economy Platform to generate new revenue sources, through leveraging the Bank's market position, knowledge and digital infrastructure.

Management is placing emphasis on diversifying income streams by optimising fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd (GIC) operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, and have been providing a stable, recurring fee income, further diversifying the Group's income streams. The insurance income net of claims and commissions for 1H2021 amounted to €31 mn (up 7% yoy), contributing to 23% of non-interest income. Furthermore, there are initiatives underway to enhance revenues from the insurance business in the medium-term, in order to deliver sustainable profitability and shareholder returns.

In the medium-term, EuroLife Ltd aims to improve total regular income mainly by extending its customer base and using a new distribution philosophy, as well as enhancing digital capabilities. To date, Eurolife has adjusted characteristics of specific products to improve its profitability and launched a new loan product that can be combined with credit facilities of other local banks. At the same time, the agency force has increased by 13% yoy and the average productivity per agent has also increased. New incentives for cross selling have been given and new products have been launched, leveraging on the close collaboration with the Bank, whilst e-alteration has been implemented.

In the medium-term, GIC aims to increase its gross written premiums mainly by leveraging on the Bank's customer base through revamping its bancassurance channel, and by focusing on high margin products. Efficiencies through enhancing digital capabilities are also expected in the medium-term. To date, GIC has increased high-margin products such as Fire by 10% yoy and Liability by 22%, as well as the profitable part of the motor segment, by 7%. In addition, automated paperless digital processes have been launched, and relationship managers for commercial clients have been introduced. Finally, incentivisation of the agency force has been put in place and new portals for bancassurance and agents has been introduced in 2Q2021.

In 1H2021, the Bank participated in TLTRO III by borrowing an additional amount of €2.0 bn, increasing its participation to €3.0 bn, despite its comfortable liquidity position, given the favourable borrowing terms, in combination with the relaxation of collateral requirements. The Bank estimates the NII benefit from its TLTRO III borrowing for the period from June 2020 to June 2021 at c.€7 mn. The potential NII benefit for the period from June 2021 to June 2022 amounts to c.€15 mn, based on current ECB rates and provided the Bank meets the net lending thresholds.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Improving operating efficiencies

The Digital Transformation Programme that started in 2017 has begun to deliver an improved customer experience, whilst the branch footprint rationalisation to date, has further improved the Bank's operating model. The branch network is now less than half the size it was in 2013.

Management remains focused on further improvement in efficiency, through further branch footprint rationalisation, further exit solutions to release full time employees, containment of restructuring costs following the completion of balance sheet de-risking, enhancement of procurement control, as well as reduction of total operating expenses by c.10% compared to FY2019 over the medium term despite inflation, facilitated by the Digital Transformation Programme.

The Group continues to work towards becoming a more customer centric organisation. A Transformation Office has been established at the beginning of the year further reinforcing the commitment to the Bank's modernisation agenda. The transformation programme will enable the implementation of the strategy with key shifts focusing on a leaner and more efficient operating model, profitability and optimisation of the client service and distribution models with an emphasis on the customer.

Digital Transformation

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

In the last few months, a number of new features promoting self-service functionalities have been made available to subscribers through the Bank's mobile banking app. The second phase of the digital KYC review was rolled out, which included the functionality of the automatic and live ID verification process. This allows the users to update their personal information, including the Identity Card and passport information, held by the bank, through their mobile app. In many cases, updates are performed in real time without a staff member having to review them, thus contributing in operational savings as well. Additionally, the users have now the ability to purchase home and motor insurance products from GIC, through a seamless and easy flow in the Bank's mobile application. This offers more options and additional services to the bank customers through the digital channels. Finally, customers have now the ability to receive directions and navigation to the branches and ATM network quickly and easily through the mobile application.

The adoption of digital products and services continued to grow and gained momentum in the second quarter of 2021 and in July 2021. As at the end of July 2021, 86.6% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by c.22.0 p.p. from 64.6% in September 2017 when the digital transformation programme was initiated). In addition, 77.0% of individual customers were digitally engaged (up by c.17.4 p.p. from 59.6% in September 2017), choosing digital channels over branches to perform their transactions. As at the end of July 2021, active mobile banking users and active QuickPay users have grown by 18% and 53% respectively in the last 12 months. The highest number of QuickPay users to date was recorded in July 2021 with 112 thousand active users. Likewise, the highest number of QuickPay payments was recorded in July 2021 with 321 thousand transactions.

Furthermore, as part of the Digital Transformation Programme, major changes are underway in relation to enabling a modern and more efficient workplace. New technologies and tools have been introduced that will drastically change the employee experience, improving collaboration and knowledge sharing across the organisation. Further enhancements will be implemented in 2021 and the full impact will be seen over the coming months.

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

As part of its responsibility to a wider group of stakeholders, the Group aims **to enhance its organisational resilience and ESG (Environmental, Social and Governance) agenda** and is working towards building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities.

Earlier this year a dedicated executive committee, the Sustainability Committee, was set up, that will 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.

In order to further strengthen the Bank's corporate responsibility regarding the protection of the environment the Bank is proceeding with the launch of 'environmentally friendly' loan products to promote investment in energy saving and environmentally friendly products and services.

The Bank maintains a rating of A (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment since June 2020.

E. Strategy and Outlook

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

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

- **Complete balance sheet de-risking**
- **Grow revenues in a more capital efficient way;** by enhancing revenue generation via growth in performing book and less capital-intensive banking and financial services operations (Insurance and Digital Economy)
- **Improve operating efficiency;** by achieving leaner operations through digitisation and automation
- **Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda;** by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities

KEY STRATEGIC PILLARS	ACTION TAKEN IN 1H2021 and to date	PLAN OF ACTION
Complete balance sheet de-risking	• Completion of Project Helix 2 (sale NPE portfolio with gross book value of €1.3 bn) in June 2021 reducing NPE ratio by c.9 p.p. • *For further information, please refer to Section B.2.5 'Loan portfolio quality' and Section D 'Business Overview'*	• Continue to work with advisors towards the sale of portfolios of NPEs in the future, to further accelerate NPE reduction through additional NPE sales
Grow revenues in a more capital efficient way; by enhancing revenue generation via growth in performing book, and less capital-intensive banking and financial services operations (Insurance and Digital Economy)	• Liquidity fees to corporate clients, that was delayed due to the COVID-19 pandemic, was implemented as of 1 February 2021 • New price list for charges and fees was implemented as of 1 February 2021 • *For further information, please refer to Section D 'Business Overview'*	• **Mitigating actions against NII challenges put in place**, e.g. growing performing book and pricing away/price correctly deposits • **Enhance fee and commission income**, e.g. on-going review of price list for charges and fees, increase average product holding through cross selling, new sources of revenue through introduction of Digital Economy Platform • **Profitable insurance business with further opportunities to grow,** e.g. focus on high margin products, leverage on Bank's strong franchise and customer base for more targeted cross selling enabled by DT

E. Strategy and Outlook (continued)

KEY STRATEGIC PILLARS	ACTION TAKEN IN 1H2021 and to date	PLAN OF ACTION
Improve operating efficiency; by achieving leaner operations through digitisation and automation	• Renewal of collective agreement for 2021-2022 is expected to increase staff costs for 2021 and 2022 by 3-4% per annum, in line with the impact of renewals in previous years. The Group's medium-term guidance, which includes maintaining annual 'total operating expenses' below €350 mn, remains unchanged. • Further developments in the Digital Transformation Programme • *For further information, please refer to Section D 'Business Overview'*	• Offer exit solutions to release full time employees • Achieve further branch footprint rationalisation • Contain restructuring costs following completion of balance sheet de-risking • Enhance procurement control • Reduce total operating expenses by c.10% over the medium term despite inflation
Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda; by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities	• The Bank reached agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement in respect of 2021 and 2022. The agreement relates to certain changes including the introduction of a new pay grading structure linked to the value of each position of employment, and of a performance-related pay component as part of the annual salary increase, both of which have been long-standing objectives of the Bank and are in line with market best-practice. • *For further information, please refer to Section D 'Business Overview'* • *Please refer to slide 32 in the 1H2021 Group Financial Results Investors Presentation*	• Enhanced structure and corporate governance • Focus on our people • **Priority on ESG agenda**, e.g. introduction of 'environmentally friendly' loan products

E. Strategy and Outlook (continued)

Although there remains uncertainty in the broader economic environment as a result of the pandemic, the Management remains confident in delivering on the strategic objectives for the Group.

The Group's near-term priorities include completing the balance sheet de-risking, whilst managing the post-pandemic NPE inflow; positioning the Bank on the path for sustainable profitability; ensuring the cost base remains appropriate, whilst further investing in the digital transformation programme in the near term in order to modernise the Bank's franchise (in fact, the cost to income ratio is expected to rise in the near term as revenues remain under pressure and operating expenses increase due to higher digitisation investment costs, and to reduce to mid-50s% in the medium term); addressing the challenges from low rates and surplus liquidity.

The medium-term priorities include delivering sustainable profitability and shareholder returns, enhancing revenues by capitalising on the Group's market leading position; enhancing operating efficiency; and optimising capital management.

The Group's medium-term strategic targets are set out below

Key Metrics		**Strategic Targets for**	
		2022	**Medium-Term**
Profitability	Return on Tangible Equity (ROTE)[1]		~7%
	Total operating expenses[2]		<€350 mn
Asset Quality	NPE ratio	<10%	~5%
	Cost of risk		70-80 bps
Capital	Supported by CET1 ratio of	At least 13%	

1. Return on Tangible Equity (ROTE) is calculated as Profit after Tax (annualised) divided by Shareholders' equity minus intangibles assets.

2. Total operating expenses comprise staff costs and other operating expenses. Total operating expenses do not include the special levy on deposits or other levies/contributions and do not include any advisory or other restructuring costs.

Maintaining a strong capital base has been a key priority for management over the past few years and this remains equally important for the Group going forward. The Group's business plan is based on maintaining a CET1 ratio of at least 13% over the entire period of the plan. The Group's capital is to be supported by organic capital generation and by focus on less capital-intensive businesses, the further reduction of high intensity risk weighted assets and the Helix 2 risk weighted asset benefit upon full payment of the deferred consideration. At the same time, factors that could potentially have a negative impact on the Group's capital ratios in addition to IFRS 9 phasing-in, include any potential regulatory impacts, as well as one-off cost optimisation charges. Until the completion of the de-risking and the restructuring of the business, there may be volatility in the capital ratios due to the timing of potential future impacts from regulatory changes and one-off restructuring costs.

The Group has a clear strategy in place, leveraging on its strong customer base, its renewed customer trust, its market leadership position, and further developing digital knowledge and infrastructure, in order to complete the turnaround of its business and set the Bank on a path for profitability and delivering value for shareholders.

F. Definitions & Explanations

Advisory and other restructuring costs	Comprise mainly (a) fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities, and (b) the cost of the tender offer for the Existing Tier 2 Capital Notes.
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprises (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities, and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
AT1	AT1 (Additional Tier 1) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Basic earnings/(losses) after tax and before non-recurring items per share (attributable to the owners of the Company)	Basic earnings/(losses) after tax and before non-recurring items per share (attributable to the owners of the Company) is the Profit/(loss) after tax and before non-recurring items (as defined below) (attributable to the owners of the Company) divided by the weighted average number of shares in issue during the period, excluding treasury shares.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 fully loaded (FL) ratio	The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service	The latest data from the Statistical Service of the Republic of Cyprus, Cyprus Statistical Service, was published on 17 August 2021.
Digital transactions ratio	This is the ratio of the number of digital transactions performed by individuals and legal entity customers to the total number of transactions. Transactions include deposits, withdrawals, internal and external transfers. Digital channels include mobile, browser and ATMs.
Digitally engaged customers ratio	This is the ratio of digitally engaged individual customers to the total number of individual customers. Digitally engaged customers are the individuals who use the digital channels of the Bank (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard.
ECB	European Central Bank
Gross loans	Gross loans 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) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment Gross loans are reported before the residual fair value adjustment on initial recognition relating mainly to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €185 mn at 30 June 2021 (compared to €226 mn at 31 March 2021 and €230 mn at 31 December 2020). Additionally, gross loans include loans and advances to customers classified and measured at fair value through profit or loss adjusted for the aggregate fair value adjustment of €332 mn at 30 June 2021 (compared to €329 mn at 31 March 2021 and €326 mn at 31 December 2020).
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or the "Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries.

F. Definitions & Explanations (continued)

Legacy exposures	Legacy exposures are exposures relating to (i) Restructuring and Recoveries Division (RRD), (ii) Real Estate Management Unit (REMU), and (iii) non-core overseas exposures.
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan credit losses (PL) (previously 'Provision charge')	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL, for the reporting period/year.
Loan credit losses charge (previously 'Provisioning charge') (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the annualised 'loan credit losses' (as defined) divided by average gross loans. The average gross loans are calculated as the average of the opening balance and the closing balance, for the reporting period/year.
Market Shares	Both deposit and loan market shares are based on data from the CBC. The Bank is the single largest credit provider in Cyprus with a market share of 39.1% at 30 June 2021, compared to 42.4% at 31 March 2021 and 41.9% at 31 December 2020. The decrease as at 30 June 2021 is mainly due to the completion of Project Helix 2.
MSCI ESG Rating	The use by the Bank of any MSCI ESG Research LLC or its affiliates ('MSCI') data, and the use of MSCI Logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation or promotion of the Bank by MSCI. MSCI Services and data are the property of MSCI or its information providers and are provided "as-is" and without warranty. MSCI Names and logos are trademarks or service marks of MSCI.
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the 'quarterly average interest earning assets' (as defined).
Net loans and advances to customers	Net loans and advances to customers comprise gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures disclosed on the balance sheet within other liabilities).
Net loans to deposits ratio	Net loans to deposits ratio is calculated as gross loans (as defined) net of allowance for expected loan credit losses (as defined) divided by customer deposits.
Net Stable Funding Ratio (NSFR)	The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF). The regulatory limit has been set at 100% as per the CRR II enforced in June 2021. The NSFR weights under CRR II do not have material deviations from those under Basel III guidelines which the Group followed prior to CRR II enforcement.
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.

F. Definitions & Explanations (continued)

Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains/(losses) and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), Insurance income net of claims and commissions, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.

Non-performing exposures (NPEs)

As per the European Banking Authorities (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), non-performing exposures (NPEs) are defined as those exposures that satisfy one of the following conditions:

(i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, diminished financial obligation and obligor bankruptcy.
(iii) Material exposures as set by the 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/RTS/2016/07).

The Days-Past-Due (DPD) counter begins counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than as of the first day of presenting any amount of arrears or excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality threshold. Payments towards the exposure that do not reduce the arrears/excesses below the materiality threshold, will not impact the counter.

For retail debtors, when a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing.

For non-retail debtors, when an exposure fulfils the NPE criteria set out above, then the total customer exposure is classified as non-performing.

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 in relation to the customer's total exposure is at least 1%.

Non-recurring items	Non-recurring items as presented in the 'Interim Condensed Consolidated Income Statement – Underlying basis' relate to the following items, as applicable: (i) advisory and other restructuring costs - organic, and (ii) Provisions/net loss relating to NPE sales, including restructuring expenses.
NPE coverage ratio (previously 'NPE Provisioning coverage ratio')	The NPE coverage ratio is calculated as the allowance for expected loan credit losses (as defined) over NPEs (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).

F. Definitions & Explanations (continued)

NPE sales	NPE sales refer to sales of NPE portfolios completed, as well as contemplated and potential future sale transactions, as the Group continues to work with its advisors towards the sale of portfolios of NPEs, to further accelerate the decrease of NPEs on the balance sheet through additional sales, irrespective of whether or not they met the held for sale classification criteria at the reporting dates.
Operating profit	The operating profit comprises profit before Total loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined).
Profit/(loss) after tax – organic (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined, except for the 'advisory and other restructuring costs – organic').
Project Helix	Project Helix refers to the sale of a portfolio of loans with a gross book value of €2.8 bn completed in June 2019.
Project Helix 2	Project Helix 2 refers to the sale of portfolios of loans with a total gross book value of €1.3 bn completed in June 2021. For further information please refer to section B.2.5 Loan portfolio quality.
Quarterly average interest earning assets	This relates to the average of 'interest earning assets' as at the beginning and end of the relevant quarter. Average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable. Interest earning assets include: cash and balances with central banks (including cash and balances with central banks classified as non-current assets held for sale), plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus 'deferred consideration receivable' included within 'other assets', plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Special levy on deposits and other levies/contributions	Relates to the special levy on deposits of credit institutions in Cyprus, contributions to the Single Resolution Fund (SRF), contributions to the Deposit Guarantee Fund (DGF), as well as the DTC levy.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.

F. Definitions & Explanations (continued)

Total expenses	Total expenses comprise staff costs, other operating expenses and the special levy on deposits and other levies/contributions. It does not include (i) 'advisory and other restructuring costs-organic', or (ii) any restructuring costs relating to NPE sales. (i) 'Advisory and other restructuring costs-organic' amounted to €15 mn for 2Q2021 (compared to €3 mn for 1Q2021 and €1 mn for 4Q2020), (ii) Restructuring costs relating to NPE sales amounted to €6 mn for 2Q2021 (compared to €4 mn for 1Q2021 and c.€1.5 mn for 4Q2020).
Total income	Total income comprises net interest income and non-interest income (as defined).
Total loan credit losses, impairments and provisions	Total loan credit losses, impairments and provisions comprises loan credit losses (as defined), plus impairments of other financial and non-financial assets, plus provisions for litigation, claims, regulatory and other matters.
Underlying basis	This refers to the statutory basis after being adjusted for certain items as explained in the Basis of Presentation.
Write offs	Loans together with the associated loan credit losses are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or "the Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" or "BOC PCL", and together with the Bank's subsidiaries, the "Group", for the six months ended 30 June 2021.

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

Financial information presented in this announcement is being published for the purposes of providing an overview of the Group financial results for the six months ended 30 June 2021.

The financial information in this announcement does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2020, upon which the auditors have given an unqualified report, were published on 30 March 2021 and are expected to be delivered to the Registrar of Companies of Ireland within 56 days of 30 September 2021. The Board of Directors approved the Group statutory financial statements for the six months ended 30 June 2021 on 31 August 2021.

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

Underlying basis: The financial information presented under the underlying basis provides an overview of the Group financial results for the six months ended 30 June 2021, which the management believes best fits the true measurement of the financial performance and position of the Group. For further information, please refer to 'Commentary on Underlying Basis' on page 7. The statutory results are adjusted for certain items (as described on pages 9-10) to allow a comparison of the Group's underlying financial position and performance, as set out on pages 6-8.

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

The Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2021 have not been audited by the Group's external auditors. The Group's external auditors have conducted a review of the Consolidated Condensed Interim Financial Statements in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity (UK & Ireland)'.

The **Interim Financial Report 2021** is available at the Bank of Cyprus Holdings Public Limited Company Office (51, Stassinos Street, Ayia Paraskevi, P.O. Box 24884, 1398, Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

This announcement and the presentation for the Group Financial Results for the six months ended 30 June 2021 have been posted on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

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

The Group Financial Results for the six months ended 30 June 2021 are presented in Euro (€) and all amounts are rounded as indicated. A comma is used to separate thousands and a dot is used to separate decimals.

Forward Looking Statements

This document contains certain forward-looking statements which can usually be identified by terms used such as “expect”, “should be”, “will be” and similar expressions or variations thereof or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Group’s near term, medium term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group’s future results of operations, financial condition, expected impairment charges, the level of the Group’s assets, liquidity, performance, prospects, anticipated growth, provisions, impairments, business strategies and opportunities. By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend upon circumstances, that will or may occur in the future. Factors that could cause actual business, strategy and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group include, but are not limited to: general economic and political conditions in Cyprus and other European Union (EU) Member States, interest rate and foreign exchange fluctuations, legislative, fiscal and regulatory developments, information technology, litigation and other operational risks, adverse market conditions, the impact of outbreaks, epidemics or pandemics, such as the COVID-19 pandemic and ongoing challenges and uncertainties posed by the COVID-19 pandemic for businesses and governments around the world. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward looking statements. The forward-looking statements made in this document are only applicable as at the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained in this document to reflect any change in the Group’s expectations or any change in events, conditions or circumstances on which any statement is based.

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The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Bank of Cyprus Group operates through a total of 91 branches in Cyprus, of which 11 operate as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 3,558 staff worldwide. At 30 June 2021, the Group’s Total Assets amounted to €24.2 bn and Total Equity was €2.1 bn. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.