Bank of Cyprus Holdings

Announcement

**Preliminary Group Financial Results for the year ended 31 December 2023 and Updated Financial Targets**

Nicosia, 19 February 2024

## Key Highlights for the year ended 31 December 2023

**Resilient economic outlook**

- Continued strong economic growth; Cyprus' GDP growth of 2.3%[1] for 4Q2023, outperforming the Eurozone average
- New lending of €2.0 bn, despite the rising interest rate environment
- Gross performing loan book at €9.8 bn, broadly flat year on year as repayments offset new lending

**Delivering ROTE of 24.8% in FY2023**

- NII of €792 mn up 114% year on year; which peaked at €220 mn in 4Q2023 (up 3% quarter on quarter)
- Non-NII of €300 mn up 3% year on year, covering 88% of total operating expenses[2]
- Total operating expenses[2] up 5% year on year with 2022 efficiency actions partly offsetting inflationary pressures; cost to income ratio[2] reduced to 31% (vs 49% in FY2022)
- Profit after tax of €487 mn (vs €57 mn in FY2022); basic earnings per share of €1.09 for FY2023

**Liquid and resilient balance sheet**

- NPE ratio broadly flat on prior quarter at 3.6% (1.0% on net basis) down 40 bps year on year and in line with guidance
- NPE Coverage at 73% up 4 p.p. on prior year; cost of risk at 62 bps
- Retail funded deposit base at €19.3 bn, up 2% year on year and broadly flat compared to prior quarter
- Highly liquid balance sheet with €9.6 bn placed at the ECB

**Robust capital and shareholder focus**

- Regulatory CET1 ratio and Total Capital ratio of 16.5% and 21.5% respectively
- Organic capital generation[3] of 482 bps in FY2023, of which 134 bps in 4Q2023
- Tangible book value per share of €4.93 in 2023, up 24% year on year

**2024-2025 Targets**

- Reiterated ROTE of over 17%[4] for 2024 and over 16%[4] for 2025 based on a 15% CET1 ratio
- Net interest income for 2024 upgraded to over €670 mn
- NPE ratio of c.3% by end-2024 and <3% by end-2025
- Reiterated dividend policy to build prudently and progressively towards a 30-50% payout ratio

1. Source: Cyprus' Ministry of Finance
2. Excluding special levy on deposits and other levies/contributions
3. Based on profit after tax (pre-distributions)
4. Excluding amounts reserved for distribution

*Key Highlights are based on the financial results on an 'Underlying Basis'.

** On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout is on a restated basis unless otherwise stated. Further information on IFRS 17 is provided under the section 'Commentary on Underlying Basis'.

## Group Chief Executive Statement

*"2023 was a milestone year for the Group representing the new chapter of becoming a strong and well-capitalised organisation. During 2023 we achieved strong financial and operational performance. We generated profit after tax of €487 mn, benefiting from sharply rising interest rates and ample liquidity whilst maintaining cost control despite inflationary pressures and robust asset quality. Our business model is diversified as demonstrated by the significant contribution of non-interest income to the Group's profitability, covering almost 90% of our total operating expenses.*

*Overall, we delivered a ROTE of 24.8%, significantly surpassing our 2023 targets. This performance facilitated rapid capital build-up, unlocking c.480 bps organic capital generation and driving our CET1 ratio to 18.7% at year end, pre- distributions. Accruing for a dividend at the top end of our dividend policy[1] our regulatory CET1 ratio stands at 16.5%. Our tangible book value per share improved by 24% year on year to €4.93, reflecting accelerating shareholder value creation.*

*The Cypriot economy remains strong with GDP growing by 2.3% in 4Q2023, demonstrating once again its resilience to external shocks. In this supportive environment, we are entering 2024, from a position of strength. We will continue to execute on those levers under our control and we are confident that we can deliver a ROTE of over 17% on a 15% CET1 ratio for 2024 and mid-teens on a more normalised interest rate environment (2.0-2.5%).*

*We recognise the importance of shareholder returns and reiterate our dividend policy to build prudently and progressively towards a 30% to 50% payout ratio.*

*We continue to execute our strategy, with a clear focus on supporting our customers, delivering shareholder value and assisting the development of the Cypriot economy."*

***Panicos Nicolaou***

[1]In line with Commission Delegated Regulation (EU) No 241/2014 principles. The dividend accrual does not constitute an approval by regulators or a decision by the Bank with respect to dividend payments for 2023. Any recommendation of a dividend is subject to regulatory approval

## A. Preliminary Group Financial Results- Statutory Basis

## Unaudited Consolidated Income Statement for the year ended 31 December 2023

| | **2023**<br>**€000** | 2022<br>(restated)[1]<br>€000 |
|---|---|---|
| Interest income | **920,078** | 428,849 |
| Income similar to interest income | **65,450** | 22,119 |
| Interest expense | **(146,899)** | (65,721) |
| Expense similar to interest expense | **(46,412)** | (14,840) |
| *Net interest income* | **792,217** | 370,407 |
| Fee and commission income | **188,343** | 202,583 |
| Fee and commission expense | **(7,320)** | (10,299) |
| Net foreign exchange gains | **28,588** | 31,291 |
| Net gains/(losses) on financial instruments | **12,780** | (614) |
| Net gains on derecognition of financial assets measured at amortised cost | **6,361** | 5,235 |
| Net insurance finance income/(expense) and net reinsurance finance income/(expense) | **960** | 784 |
| Net insurance service result | **73,528** | 60,530 |
| Net reinsurance service result | **(21,000)** | (16,748) |
| Net gains/(losses) from revaluation and disposal of investment properties | **1,043** | (999) |
| Net gains on disposal of stock of property | **8,972** | 13,970 |
| Other income | **18,337** | 16,681 |
| *Total operating income* | **1,102,809** | 672,821 |
| Staff costs | **(192,266)** | (285,154) |
| Special levy on deposits and other levies/contributions | **(42,380)** | (38,492) |
| Provisions for pending litigations, claims, regulatory and other matters (net of reversals) | **(28,464)** | (11,880) |
| Other operating expenses | **(151,093)** | (157,916) |
| *Operating profit before credit losses and impairment* | **688,606** | 179,379 |
| Credit losses on financial assets | **(79,830)** | (59,087) |
| Impairment net of reversals on non-financial assets | **(46,852)** | (29,549) |
| **Profit before tax** | **561,924** | 90,743 |
| Income tax | **(72,980)** | (31,312) |
| **Profit after tax for the year** | **488,944** | 59,431 |
| **Attributable to:** | | |
| Owners of the Company | **487,207** | 56,565 |
| Non-controlling interests | **1,737** | 2,866 |
| **Profit for the year** | **488,944** | 59,431 |
| **Basic profit per share attributable to the owners of the Company (€ cent)** | **109.2** | 12.7 |
| **Diluted profit per share attributable to the owners of the Company (€ cent)** | **109.0** | 12.7 |

1. 2022 comparative information has been restated to reflect the impact of IFRS 17. Refer to 'Commentary on Underlying Basis'

## A. Preliminary Group Financial Results- Statutory Basis (continued)

## Unaudited Consolidated Balance Sheet as at 31 December 2023

| | **31 December 2023** | 31 December 2022 (restated)[1] | 1 January 2022 (restated)[1] |
|---|---|---|---|
| **Assets** | €000 | €000 | €000 |
| Cash and balances with central banks | **9,614,502** | 9,567,258 | 9,230,883 |
| Loans and advances to banks | **384,802** | 204,811 | 291,632 |
| Reverse repurchase agreements | **403,199** | - | - |
| Derivative financial assets | **51,055** | 48,153 | 6,653 |
| Investments at FVPL | **135,275** | 190,209 | 199,194 |
| Investments at FVOCI | **443,420** | 467,375 | 748,695 |
| Investments at amortised cost | **3,116,714** | 2,046,119 | 1,191,274 |
| Loans and advances to customers | **9,821,788** | 9,953,252 | 9,836,405 |
| Life insurance business assets attributable to policyholders | **649,212** | 542,321 | 551,797 |
| Prepayments, accrued income and other assets | **584,919** | 609,054 | 583,777 |
| Stock of property | **826,115** | 1,041,032 | 1,111,604 |
| Investment properties | **62,105** | 85,099 | 117,745 |
| Deferred tax assets | **201,268** | 227,934 | 265,942 |
| Property and equipment | **285,568** | 253,378 | 252,130 |
| Intangible assets | **48,635** | 52,546 | 54,144 |
| Non-current assets and disposal groups held for sale | **-** | - | 358,951 |
| **Total assets** | **26,628,577** | 25,288,541 | 24,800,826 |
| **Liabilities** | | | |
| Deposits by banks | **471,556** | 507,658 | 457,039 |
| Funding from central banks | **2,043,868** | 1,976,674 | 2,969,600 |
| Derivative financial liabilities | **17,980** | 16,169 | 32,452 |
| Customer deposits | **19,336,915** | 18,998,319 | 17,530,883 |
| Insurance liabilities | **658,424** | 597,981 | 622,398 |
| Accruals, deferred income, other liabilities and other provisions | **469,265** | 381,193 | 358,090 |
| Provisions for pending litigation, claims, regulatory and other matters | **131,503** | 127,607 | 104,108 |
| Debt securities in issue | **671,632** | 297,636 | 302,555 |
| Subordinated liabilities | **306,787** | 302,104 | 340,220 |
| Deferred tax liabilities | **32,306** | 34,634 | 39,817 |
| **Total liabilities** | **24,140,236** | 23,239,975 | 22,757,162 |
| **Equity** | | | |
| Share capital | **44,620** | 44,620 | 44,620 |
| Share premium | **594,358** | 594,358 | 594,358 |
| Revaluation and other reserves | **89,920** | 76,939 | 99,541 |
| Retained earnings | **1,518,182** | 1,090,349 | 1,062,711 |
| **Equity attributable to the owners of the Company** | **2,247,080** | 1,806,266 | 1,801,230 |
| Other equity instruments | **220,000** | 220,000 | 220,000 |
| **Non-controlling interests** | **21,261** | 22,300 | 22,434 |
| **Total equity** | **2,488,341** | 2,048,566 | 2,043,664 |
| **Total liabilities and equity** | **26,628,577** | 25,288,541 | 24,800,826 |

1. 2022 comparative information has been restated to reflect the impact of IFRS 17. Refer to 'Commentary on Underlying Basis'

## B. Preliminary Group Financial Results – Underlying Basis

### Unaudited Consolidated Income Statement

| € mn | FY2023 | FY2022 (IFRS17)[1] | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 | qoq +% | yoy ±% |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 792 | 370 | 220 | 214 | 196 | 162 | 3% | 114% |
| Net fee and commission income | 181 | 192 | 46 | 45 | 46 | 44 | 4% | -6% |
| Net foreign exchange gains and net gains/(losses) on financial instruments | 37 | 26 | 8 | 8 | 8 | 13 | 13% | 46% |
| Net insurance result | 54 | 44 | 16 | 13 | 15 | 10 | 19% | 20% |
| Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties | 10 | 13 | 3 | 2 | 3 | 2 | 28% | -23% |
| Other income | 18 | 17 | 3 | 3 | 9 | 3 | 8% | 10% |
| **Total income** | **1,092** | **662** | **296** | **285** | **277** | **234** | **4%** | **65%** |
| Staff costs | (192) | (181) | (51) | (48) | (47) | (46) | 5% | 6% |
| Other operating expenses | (149) | (144) | (42) | (38) | (35) | (34) | 15% | 4% |
| Special levy on deposits and other levies/contributions | (43) | (38) | (13) | (12) | (7) | (11) | 10% | 10% |
| **Total expenses** | **(384)** | **(363)** | **(106)** | **(98)** | **(89)** | **(91)** | **9%** | **6%** |
| **Operating profit** | **708** | **299** | **190** | **187** | **188** | **143** | **2%** | **137%** |
| Loan credit losses | (63) | (47) | (19) | (20) | (13) | (11) | -5% | 34% |
| Impairments of other financial and non-financial assets | (53) | (33) | (15) | (8) | (19) | (11) | 97% | 66% |
| Provisions for pending litigations, claims, regulatory and other matters (net of reversals) | (28) | (11) | (8) | (6) | (8) | (6) | 22% | 140% |
| **Total loan credit losses, impairments and provisions** | **(144)** | **(91)** | **(42)** | **(34)** | **(40)** | **(28)** | **24%** | **59%** |
| **Profit before tax and non-recurring items** | **564** | **208** | **148** | **153** | **148** | **115** | **-3%** | **171%** |
| Tax | (73) | (31) | (10) | (23) | (22) | (18) | -56% | 133% |
| Profit attributable to non-controlling interests | (2) | (3) | 0 | (1) | 0 | (1) | -94% | -39% |
| **Profit after tax and before non-recurring items (attributable to the owners of the Company)** | **489** | **174** | **138** | **129** | **126** | **96** | **7%** | **181%** |
| Advisory and other transformation costs – organic | (2) | (11) | - | - | (1) | (1) | - | -80% |
| **Profit after tax – organic (attributable to the owners of the Company)** | **487** | **163** | **138** | **129** | **125** | **95** | **7%** | **199%** |
| Net profit/(loss)/ provisions relating to NPE sales | - | 1 | - | - | - | - | - | -100% |
| Restructuring and other costs relating to NPE sales | - | (3) | - | - | - | - | - | -100% |
| Restructuring costs – Voluntary Staff Exit Plan (VEP) | - | (104) | - | - | - | - | - | -100% |
| **Profit after tax (attributable to the owners of the Company)** | **487** | **57** | **138** | **129** | **125** | **95** | **7%** | - |

## B. Preliminary Group Financial Results – Underlying Basis (continued)

### Unaudited Consolidated Income Statement- Key Performance Ratios

| Key Performance Ratios | FY2023 | FY2022 IFRS 17[1] | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 | qoq ±% | yoy ±% |
|---|---|---|---|---|---|---|---|---|
| Net Interest Margin (annualised) | 3.41% | 1.65% | 3.66% | 3.63% | 3.43% | 2.91% | 3 bps | 176 bps |
| Cost to income ratio | 35% | 55% | 36% | 34% | 32% | 39% | 2 p.p. | -20 p.p. |
| Cost to income ratio excluding special levy on deposits and other levies/contributions | 31% | 49% | 32% | 30% | 29% | 34% | 2 p.p. | -18 p.p. |
| Operating profit return on average assets (annualised) | 2.7% | 1.2% | 2.8% | 2.9% | 3.0% | 2.3% | -0.1 p.p. | 1.5 p.p. |
| Basic earnings per share attributable to the owners of the Company (€)[2] | 1.09 | 0.13 | 0.31 | 0.29 | 0.28 | 0.21 | 0.02 | 0.96 |
| Return on tangible equity (ROTE) | 24.8% | 3.2% | 25.6% | 25.6% | 26.6% | 21.3% | - | 21.6 p.p. |
| Tangible book value per share (€) | 4.93 | 3.93 | 4.93 | 4.63 | 4.34 | 4.15 | 0.30 | 1.00 |

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout is on a restated basis unless otherwise stated. For further details, please refer to 'Commentary on Underlying Basis'.
2. The diluted earnings per share attributable to the owners of the Company for 4Q2023 amounted to €0.31 and €1.09 for FY2023
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

### Commentary on Underlying Basis

The financial information presented in this Section provides an overview of the Group financial results for the year ended 31 December 2023 on the 'underlying basis' which management believes best fits the true measurement of the performance and position of the Group, as this presents separately any non-recurring items and also includes certain reclassifications of items, other than non-recurring items, which are done for presentational purposes under the underlying basis for aligning the presentation with items of a similar nature.

Reconciliations between the statutory basis and the underlying basis to facilitate the comparability of the underlying basis to the statutory information, are included in Section B.1 'Unaudited Reconciliation of consolidated Income statement for the year ended 31 December 2023 between statutory basis and underlying basis' and will also be available in the Annual Financial Report for the year ended 31 December 2023 under 'Alternative Performance Measures Disclosures'.

Throughout this announcement, financial information in relation to FY2022 and quarterly 2022 financial information has been restated for the effects of transition to IFRS 17 which was adopted on 1 January 2023 and applied retrospectively. As a result, 2022 financial information, ratios and metrics are presented on a restated basis unless otherwise stated. Further information on the impact of IFRS 17 transition is provided below.

Throughout this announcement, **the capital ratios as at 31 December 2022 have been restated in order to take into consideration the 2022 dividend declaration**. This refers to the proposal by the Board of Directors to the shareholders of a final dividend in respect of the FY2022 earnings following the approval by the European Central Bank ('ECB'). The proposed final dividend was declared at the Annual General Meeting ('AGM') which was held on 26 May 2023. This dividend amounted to €22.3 mn in total and had a negative impact of 22 bps on the Group's CET1 ratio and Total Capital ratio as at 31 December 2022. As a result, the 31 December 2022 capital ratios are presented as restated for the 2022 dividend unless otherwise stated.

## B. Preliminary Group Financial Results – Underlying Basis (continued)

### Commentary on Underlying Basis (continued)

#### *Transition to IFRS 17*

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

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

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

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

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

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

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

## B. Preliminary Group Financial Results– Underlying Basis (continued)

### Unaudited Condensed Consolidated Balance Sheet

| € mn | 31.12.2023 | 31.12.2022 IFRS 17[1] | ±% |
|---|---|---|---|
| Cash and balances with central banks | **9,615** | **9,567** | 0% |
| Loans and advances to banks | **385** | **205** | 88% |
| Reverse repurchase agreements | **403** | **-** | - |
| Debt securities, treasury bills and equity investments | **3,695** | **2,704** | 37% |
| Net loans and advances to customers | **9,822** | **9,953** | -1% |
| Stock of property | **826** | **1,041** | -21% |
| Investment properties | **62** | **85** | -27% |
| Other assets | **1,821** | **1,734** | 5% |
| **Total assets** | **26,629** | **25,289** | **5%** |
| Deposits by banks | **472** | **508** | -7% |
| Funding from central banks | **2,044** | **1,977** | 3% |
| Customer deposits | **19,337** | **18,998** | 2% |
| Debt securities in issue | **672** | **298** | 126% |
| Subordinated liabilities | **307** | **302** | 2% |
| Other liabilities | **1,309** | **1,157** | 13% |
| **Total liabilities** | **24,141** | **23,240** | **4%** |
| **Shareholders' equity** | **2,247** | **1,807** | **24%** |
| Other equity instruments | **220** | **220** | **-** |
| **Total equity excluding non-controlling interests** | **2,467** | **2,027** | **22%** |
| Non-controlling interests | **21** | **22** | **-5%** |
| **Total equity** | **2,488** | **2,049** | **21%** |
| **Total liabilities and equity** | **26,629** | **25,289** | **5%** |

| **Key Balance Sheet figures and ratios** | **31.12.2023** | **31.12.2022[1]** | ± |
|---|---|---|---|
| Gross loans (€ mn) | **10,070** | **10,217** | -1% |
| Allowance for expected loan credit losses (€ mn) | **267** | **282** | -5% |
| Customer deposits (€ mn) | **19,337** | **18,998** | 2% |
| Loans to deposits ratio (net) | **51%** | **52%** | -1 p.p. |
| NPE ratio | **3.6%** | **4.0%** | -40 bps |
| NPE coverage ratio | **73%** | **69%** | +4 p.p. |
| Leverage ratio | **9.1%** | **7.8%** | +130 bps |
| **Capital ratios and risk weighted assets** | **31.12.2023 (Regulatory[3])** | **31.12.2022[2]** | **±** |
| Common Equity Tier 1 (CET1) ratio (transitional) | **16.5%** | **15.2%** | +130 bps |
| Total capital ratio (transitional) | **21.5%** | **20.4%** | +110 bps |
| Risk weighted assets (€ mn) | **10,341** | **10,114** | +2% |

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'.2022 comparative information presented throughout is on a restated basis unless otherwise stated. Please refer to 'Commentary on Underlying Basis'.
2. The capital ratios have been restated to take into consideration the dividend in respect of FY2022 earnings. For further details please refer to section B.2.1.
3. Includes unaudited preliminary profits for the year ended 31 December 2023 net of dividend accrual (refer to section B.2.1). Any recommendation for a dividend is subject to regulatory approval. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

## B. Preliminary Group Financial Results– Underlying Basis (continued)

### B.1 Unaudited Reconciliation of Consolidated Income Statement for the year ended 31 December 2023 between the statutory and underlying basis

| **€ million** | **Underlying basis** | **Other** | **Statutory basis** |
|---|---|---|---|
| Net interest income | 792 | - | 792 |
| Net fee and commission income | 181 | - | 181 |
| Net foreign exchange gains and net gains/(losses) on financial instruments | 37 | 4 | 41 |
| Net gains on derecognition of financial assets measured at amortised cost | - | 6 | 6 |
| Net insurance result* | 54 | - | 54 |
| Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties | 10 | - | 10 |
| Other income | 18 | - | 18 |
| **Total income** | **1,092** | **10** | **1,102** |
| **Total expenses** | **(384)** | **(30)** | **(414)** |
| **Operating profit** | **708** | **(20)** | **688** |
| Loan credit losses | (63) | 63 | - |
| Impairment of other financial and non-financial assets | (53) | 53 | - |
| Provisions for pending litigations, claims, regulatory and other matters (net of reversals) | (28) | 28 | - |
| Credit losses on financial assets and impairment net of reversals of non-financial assets | - | (126) | (126) |
| **Profit before tax and non-recurring items** | **564** | **(2)** | **562** |
| Tax | (73) | - | (73) |
| Profit attributable to non-controlling interests | (2) | - | (2) |
| **Profit after tax and before non-recurring items (attributable to the owners of the Company)** | **489** | **(2)** | **487** |
| Advisory and other transformation costs - organic | (2) | 2 | - |
| **Profit after tax (attributable to the owners of the Company)** | **487** | **-** | **487** |

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

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

- Net gains on loans and advances to customers at FVPL of €2 million included in '*Loan credit losses*' under the underlying basis are included in '*Net gains/(losses) on financial instruments*' under the statutory basis. Their classification under the underlying basis is done to align their presentation with the loan credit losses on loans and advances to customers at amortised cost.

- '*Net gains on derecognition of financial assets measured at amortised cost*' of €6 million under the statutory basis comprise the below items which are reclassified accordingly under the underlying basis as follows:

  - €8 million net gains on derecognition of loans and advances to customers included in 'Loan credit losses' under the underlying basis as to align to the presentation of the loan credit losses arising from loans and advances to customers.
  - Net losses on derecognition of debt securities measured at amortised cost of c.€2 million included in 'Net foreign exchange gains and net gains/(losses) on financial instruments' under the underlying basis in order to align their presentation with the gains/(losses) arising on financial instruments.

- *'Provisions for pending litigations, claims, regulatory and other matters (net of reversals)'* amounting to €28 million presented within '*Operating profit before credit losses and impairment*' under the statutory basis, are presented under the underlying basis in conjunction with loan credit losses and impairments.

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

## B. Preliminary Group Financial Results– Underlying Basis (continued)

### B.1 Unaudited Reconciliation of Income Statement for the year ended 31 December 2023 between the statutory and underlying basis (continued)

- '*Credit losses on financial assets*' and '*Impairment net of reversals on non-financial assets*' under the statutory basis include: i) credit losses to cover credit risk on loans and advances to customers of €73 million, which are included in '*Loan credit losses*' under the underlying basis, and ii) credit losses of other financial assets of €6.5 million and impairment net of reversals of non-financial assets of €47 million, which are included in '*Impairment of other financial and non-financial assets*' under the underlying basis, as to be presented separately from loan credit losses.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.2 Balance Sheet Analysis

### B.2.1 Capital Base

**Total equity excluding non-controlling interests** totalled €2,467 mn as at 31 December 2023 compared to €2,342 mn as at 30 September 2023 and to €2,027 mn as at 31 December 2022. Shareholders' equity totalled to €2,247 mn as at 31 December 2023 compared to €2,114 mn as at 30 September 2023 and to €1,807 mn as at 31 December 2022.

The **regulatory Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 16.5% as at 31 December 2023, compared to 15.2% as at 30 September 2023 (or 15.8% when including retained earnings and after dividend accrual for 3Q2023) and 15.2% as at 31 December 2022, as restated. During FY2023 organic capital generation amounted to 482 bps (of which 134 bps were recorded in 4Q2023) and a dividend accrual at the top end of the Group's approved dividend policy of c.225 bps was accrued. Throughout this announcement, the capital ratios as at 31 December 2023 include unaudited preliminary profits for year ended 31 December 2023 in line with the ECB Decision (EU) (2015/656) on the recognition of interim or year-end profits in CET1 capital in accordance with Article 26(2) of the CRR and an accrual thereon of dividend at the top end of the Group's approved dividend policy in line with the principles of Commission Delegated Regulation EU No 241/2014 (such ratios are referred as regulatory). As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. From 3Q2023, the amount corresponding to the Pillar II add-on requirement relating to ECB's prudential provisioning expectations of 32 bps (as at 31 December 2023) is deducted from CET1 capital and therefore has been eliminated from the Pillar II SREP capital requirements from 1 January 2024. A prudential charge in relation to the onsite inspection on the value of the Group's foreclosed assets is being deducted from own funds since June 2021, the impact of which is 12 bps on Group's CET1 ratio as at 31 December 2023. In addition, the Group is subject to increased capital requirements in relation to its real estate repossessed portfolio which follow a SREP provision to ensure minimum capital levels retained on long-term holdings of real estate assets, with such requirements being dynamic by reference to the in-scope REMU assets remaining on the balance sheet of the Group and the value of such assets. As at 31 December 2023 the impact of these requirements were 24 bps on Group's CET1 ratio. The above-mentioned requirements are within the capital plans of the Group and incorporated within its capital projections.

The Group had elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios was phased-in gradually, with the impact being fully phased-in (100%) by 1 January 2023. The final phasing-in of the impact of the impairment amount from the initial application of IFRS 9 was c.65 bps on the CET1 ratio on 1 January 2023.

The **regulatory Total Capital ratio on a transitional basis** stood at 21.5% as at 31 December 2023, compared to 20.4% as at 30 September 2023 (or 21.0% when including retained earnings and after dividend accrual for 3Q2023) and to 20.4% as at 31 December 2022, as restated.

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

The Group's minimum phased-in CET1 capital ratio requirement as at 31 December 2023 was set at **10.72%**, comprising a 4.50% Pillar I requirement, a 1.73% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of c.0.48%. The Group's minimum phased-in Total Capital ratio requirement was set at **15.56%**, comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a 3.08% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of c.0.48%. Following the annual SREP performed by the ECB in 2022, ECB has also maintained the non-public guidance for an additional Pillar II CET1 buffer (P2G) unchanged compared to 2021.

Following the annual SREP performed by the ECB in 2023, and based on the **final SREP decision** received in November 2023, effective from 1 January 2024, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio requirements decreased, when disregarding the phasing in of the O-SII buffer and CcyB, reflecting the elimination of the Pillar II add-on relating to ECB's prudential provisioning expectations, following the Group's decision to directly deduct from own funds such amount. On 1 January 2024 the Group's minimum phased-in CET1 capital ratio is set at c.**10.91%**, comprising a 4.50% Pillar I requirement, a 1.55% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.875% and CcyB of c.0.48%. Likewise, the Group's minimum phased-in Total Capital ratio requirement is set at c.**15.61%,** comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a 2.75% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.875% and the CcyB of c.0.48%. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer (P2G) compared to previous year. From 2 June 2024 both CET1 capital and Total Capital requirements are expected to increase by c.0.50% as a result of the increase in the CcyB.

## B.2 Balance Sheet Analysis (continued)

### B.2.1 Capital Base (continued)

In the context of the annual SREP performed by the ECB in 2022 and based on the final SREP decision received in December 2022, effective from 1 January 2023, the Pillar II requirement had been revised to 3.08%, compared to the previous level of 3.26%. The Pillar II requirement included a revised Pillar II requirement add-on of 0.33% relating to ECB's prudential provisioning expectations. When disregarding the Pillar II add-on relating to ECB's prudential provisioning expectations, the Pillar 2 requirement has been reduced from 3.00% to 2.75%. From 30 September 2023, the Pillar II add-on of 0.33% relating to ECB's prudential provisioning expectations is being deducted from capital and therefore the Pillar 2 requirement decreased to 2.75% on 1 January 2024.

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus of each licensed credit institution incorporated in Cyprus effective from 30 November 2023. Further, in June 2023, the CBC announced an additional increase of 0.50% in the CcyB of the total risk exposure amounts in Cyprus of each licensed credit institution incorporated in Cyprus to be observed from June 2024, increasing the CcyB to 1.00%.

The Bank has been designated as an Other Systemically Important Institution (**O-SII)** by the Central Bank of Cyprus (CBC) in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015 and the relevant buffer stood at 1.50%. In October 2023, the CBC concluded its reassessment for the designation of credit institutions that meet the definition of O-SII institutions and the setting of O-SII buffer to be observed. The Group's O-SII buffer has been revised to 2.25% (from 1.50%), phased in annually by 37.5 bps, to 1.875% on 1 January 2024 and to 2.25% on 1 January 2025.

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

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

#### Resumption of dividend payments

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

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

The Dividend had a negative capital impact of 22 bps on the Group's CET1 ratio and Total Capital ratio as at 31 December 2022.

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

#### Dividend policy

In April 2023 the Board of Directors approved the Group's dividend policy. The Group aims to provide a sustainable return to shareholders. In line with the Group's dividend policy, dividend payments are expected to build prudently and progressively over time, towards a payout ratio in the range of 30-50% of the Group's adjusted recurring profitability. Group adjusted recurring profitability is defined as the Group's profit after tax before non-recurring items (attributable to the owners of the Company) taking into account distributions under other equity instruments such as the annual AT1 coupon. The dividend policy takes into consideration market conditions as well as the outcome of capital and liquidity planning. The distribution level will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board of Directors' assessment of the capital required to implement the Group Strategy and any capital the Group retains to cover uncertainties (e.g. related to the economic outlook) and any impact from the evolving regulatory and accounting environments.

#### Other equity instruments

At 31 December 2023, the Group's other equity instruments relate to Additional Tier 1 Capital Securities (the "AT1 securities") and amounted to €220 mn, compared to €228 mn as at 30 September 2023, down 4% on prior quarter.

## B.2 Balance Sheet Analysis (continued)

### B.2.1 Capital Base (continued)

#### Other equity instruments (continued)

In June 2023, the Company successfully launched and priced an issue of €220 mn Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the 'New Capital Securities'). The New Capital Securities constitute unsecured and subordinated obligations of the Company, are perpetual and are issued at par. They carry an initial coupon of 11.875% per annum, payable semi-annually and resettable on 21 December 2028 and every 5 years thereafter. The Company will have the option to redeem the New Capital Securities from, and including, 21 June 2028 to, and including, 21 December 2028 and on each interest payment date thereafter, subject to applicable regulatory consents and the relevant conditions to redemption.

At the same time, the Company invited the holders of its outstanding €220 mn Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities callable in December 2023 to tender their Existing Capital Securities at a purchase price of 103% of the principal amount, after which c.€16 mn Existing Capital Securities remained outstanding. As a result, a cost of c.€7 mn was recorded directly in the Company's equity in 2Q2023, forfeiting the relevant future coupon payments. Transaction costs of €3.5 mn in relation to the transactions were recorded directly in equity in June 2023.

In July 2023, the Company purchased and cancelled a further c.€7 mn Existing Capital Securities in the open market. In November 2023, the Board of Directors resolved to exercise the Company's option to redeem the remaining c.€8 mn in aggregate principal amount outstanding of the Existing AT1 Capital Securities on 19 December 2023.

#### Legislative amendments for the conversion of DTA to DTC

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

Following certain modifications to the Law in May 2022, the annual guarantee fee is to be determined by the Cyprus Government on an annual basis, providing however that such fee to be charged is set at a minimum fee of 1.5% of the annual instalment and can range up to a maximum amount of €10 mn per year, and also allowing for a higher amount to be charged in the year the amendments are effective (i.e. in 2022).

The Group estimates that such fees could range up to c.€5 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. An amount of €5 mn was recorded in FY2023.

### B.2.2 Regulations and Directives

#### B.2.2.1 The 2021 Banking Package (CRR III and CRD VI and BRRD)

In October 2021, the European Commission adopted legislative proposals for further amendments to the Capital Requirements Regulation (CRR), CRD IV and the BRRD (the "**2021 Banking Package**"). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD IV and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state. The European Council's proposal on CRR and CRD was published on 8 November 2022. During February 2023, the European Parliament's ECON Committee voted to adopt Parliament's proposed amendments to the Commission's proposal, and the 2021 Banking Package is currently in the final stage of the EU legislative process. In June 2023, negotiators from the Council presidency and the European Parliament reached a provisional agreement on amendments to the Capital Requirements Regulation and the Capital Requirements Directive. In December 2023, the preparatory bodies of the Council and European Parliament have endorsed the banking package. With the decisions taken by the Council and European Parliament preparatory bodies, the legal texts have now been published on the Council and the Parliament websites. Although still subject to legal revision and to the final vote in the Plenary, no changes in substance are expected until its adoption in the European Parliament by the second quarter of 2024. It is expected that the 2021 Banking Package will enter into force on 1 January 2025; and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.2 Balance Sheet Analysis (continued)

### B.2.2 Regulations and Directives (continued)

#### 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 January 2024, the Bank received final notification from the SRB regarding the 2024 MREL decision, by which the final MREL requirement is now set at 25.00% of risk weighted assets and must be met by 31 December 2024, one year earlier than the previous decision, in light of the Group's progress over the years of becoming a strong, well-capitalised with sustainable profitability organisation.

Furthermore, the binding interim requirement of 1 January 2022 set at 14.94% of risk weighted assets and 5.91% of LRE must continue to be met. The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) are not eligible to meet its MREL requirements expressed in terms of risk-weighted assets. The Bank must comply with the MREL requirement at the consolidated level, comprising the Bank and its subsidiaries.

The regulatory MREL ratio as at 31 December 2023, calculated according to the SRB's eligibility criteria currently in effect and based on internal estimate, stood at 24.6% of risk weighted assets (RWA) and at 11.4% of LRE. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR requirement, which stood at 4.48% on 31 December 2023 (compared to 4.04% as at 30 September 2023 and 3.77% as at 31 December 2022), reflecting the increase on 30 November 2023 of CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus. CCyB is expected to further increase from June 2024 as announced by CBC. Additionally, the CBR requirement is increased further on 1 January 2024 following an increase in O-SII buffer from 1.50% to 1.875% and subsequently to 2.25% from 1 January 2025, as announced by CBC.

Throughout this announcement, the MREL ratios as at 31 December 2023 include unaudited preliminary profits for the year ended 31 December 2023 in line with the ECB Decision (EU) (2015/656) on the recognition of interim or year-end profits in CET1 capital in accordance with Article 26(2) of the CRR and an accrual of dividend at the top end of the Group's approved dividend policy in line with the principles of Commission Delegated Regulation EU No241/2014.

**The Bank continues to evaluate opportunities to optimise the build-up of its MREL.**

### B.2.3 Funding and Liquidity

#### Funding

***Funding from Central Banks***

At 31 December 2023, the Bank's funding from central banks amounted to €2,044 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III, compared to €2,023 mn at 30 September 2023 and to €1,977 mn at 31 December 2022.

The maturity date of the Bank's funding of €1.7 bn under the seventh TLTRO III operation is in March 2024, whilst the €300 mn under the eighth TLTRO III operation is in June 2024.

***Deposits***

Customer deposits totalled €19,337 mn at 31 December 2023 (compared to €19,267 mn at 30 September 2023 and to €18,998 mn at 31 December 2022) broadly flat in the fourth quarter. Customer deposits are mainly retail-funded and 58% of deposits are protected under the deposit guarantee scheme as at 31 December 2023.

The Bank's deposit market share in Cyprus reached 37.7% as at 31 December 2023, the same as at 30 September 2023 and to 37.2% as at 31 December 2022. Customer deposits accounted for 73% of total assets and 80% of total liabilities at 31 December 2023 (compared to 75% of total assets and 82% of total liabilities as at 31 December 2022).

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.2 Balance Sheet Analysis (continued)

### B.2.3 Funding and Liquidity (continued)

#### *Deposits* (continued)

The net loans to deposits (L/D) ratio stood at 51% as at 31 December 2023 (compared to 51% as at 30 September 2023 and to 52% as at 31 December 2022 on the same basis), flat in the fourth quarter.

#### *Subordinated liabilities*

At 31 December 2023, the carrying amount of the Group's subordinated liabilities amounted to €307 mn (compared to €315 mn at 30 September 2023 and to €302 mn at 31 December 2022) and relate to unsecured subordinated Tier 2 Capital Notes ('T2 Notes').

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

#### *Debt securities in issue*

At 31 December 2023, the carrying value of the Group's debt securities in issue amounted to €672 mn (compared to €644 mn at 30 September 2023 and to €298 mn at 31 December 2022) and relate to senior preferred notes. The increase of 126% since the beginning of the year, relates to the issuance of €350 mn senior preferred notes in 3Q2023.

In July 2023, the Bank successfully launched and priced an issuance of €350 mn of senior preferred notes (the "Notes"). The Notes were priced at par with a fixed coupon of 7.375% per annum, payable annually in arrear, until the Optional Redemption Date i.e. 25 July 2027. The maturity date of the Notes is 25 July 2028; however, the Bank may, at its discretion, redeem the Notes on the Optional Redemption Date subject to meeting certain conditions (including applicable regulatory consents) as specified in the Terms and Conditions. If the Notes are not redeemed by the Bank, the coupon payable from the Optional Redemption Date until the Maturity Date will convert from a fixed rate to a floating rate and will be equal to 3-month Euribor + 409.5 bps, payable quarterly in arrear. The Notes comply with the criteria for the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") and contribute towards the Bank's MREL requirements.

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.

#### Liquidity

At 31 December 2023, the Group Liquidity Coverage Ratio (LCR) stood at 359% (compared to 350% at 30 September 2023 and to 291% at 31 December 2022), well above the minimum regulatory requirement of 100%. The LCR surplus as at 31 December 2023 amounted to €9.1 bn (compared to €8.6 bn at 30 September 2023 and to €7.2 bn at 31 December 2022). The increase in liquidity surplus in 4Q2023 is due to higher deposits. When disregarding the TLTRO III, the Group's liquidity position remains strong with an LCR of 302% and liquidity surplus of €7.1 bn.

At 31 December 2023, the Group Net Stable Funding Ratio (NSFR) stood at 158% (compared to 162% at 30 September 2023 and to 168% at 31 December 2022), well above the minimum regulatory requirement of 100%.

### B.2.4 Loans

Group **gross loans** totalled €10,070 mn at 31 December 2023, compared to €10,167 mn at 30 September 2023 and to €10,217 mn at 31 December 2022, broadly flat yoy as repayments offset new lending.

New lending granted in Cyprus reached €462 mn for 4Q2023 (compared to €445 mn for 3Q2023, €494 mn for 2Q2023 and to €624 mn for 1Q2023) up by 4% qoq. New lending in 4Q2023 comprised €166 mn of corporate loans, €187 mn of retail loans (of which €124 mn were housing loans), €43 mn of SME loans and €66 mn of shipping and international loans. New lending for FY2023 stood at €2,025 mn, despite the rising interest rate environment, driven mainly by corporate demand.

At 31 December 2023, the Group net loans and advances to customers totalled €9,822 mn (compared to €9,910 mn at 30 September 2023 and to €9,953 mn at 31 December 2022), broadly flat since the beginning of the year.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.2 Balance Sheet Analysis (continued)

### B.2.4 Loans (continued)

The Bank is the largest credit provider in Cyprus with a market share of 42.2% at 31 December 2023, compared to 42.3% at 30 September 2023 and to 40.9% at 31 December 2022.

In December 2023 the Bank entered into an agreement with Cyprus Asset Management Company ('KEDIPES') to acquire a portfolio of performing and restructured loans with gross book value of c.€58 mn with reference date 31 December 2022 (the 'Transaction'). The Transaction is expected to be broadly neutral to the Group's income statement and capital position. The Transaction is subject to relevant regulatory approvals and is expected to be completed in 1Q2024.

### B.2.5 Loan portfolio quality

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

The loan credit losses for 4Q2023 amounted to €19 mn broadly flat compared to prior quarter, and totalled to €63 mn for FY2023, compared to €47 mn for FY2022. Further details regarding loan credit losses are provided in Section B.3.3 'Profit before tax and non-recurring items'.

#### Non-performing exposures

Following a deep dive assessment of the Group's loan portfolio in the second half of 2023, an amount of €53 mn was classified as unlikely to pay exposures ('UTPs') in 4Q2023, of which €42 mn relate to specific customers with idiosyncratic characteristics, compared to €37 mn UTPs in 3Q2023. The vast majority of the UTPs are not linked with the current macroeconomic environment, they adhere their payment schedule and present no arrears. Despite the high interest rates and inflation, there are no material signs of asset quality deterioration to date. While defaults have been limited, the additional monitoring and provisioning for sectors and individuals vulnerable to the macroeconomic environment remain in place to ensure that potential difficulties in the repayment ability are identified at an early stage, and appropriate solutions are provided to viable customers.

**Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA)** were increased by €7 mn, or 2% in 4Q2023, compared to a net organic reduction of €13 mn in 3Q2023, to €365 mn at 31 December 2023 (compared to €358 mn at 30 September 2023 and €411 mn at 31 December 2022).

As a result, the NPEs account for 3.6% of gross loans as at 31 December 2023, compared to 3.5% at 30 September 2023 and to 4.0% at 31 December 2022.

The NPE coverage ratio stands at 73% at 31 December 2023, compared to 77% at 30 September 2023 and to 69% as at 31 December 2022. When taking into account tangible collateral at fair value, NPEs are fully covered.

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

#### Mortgage-To-Rent Scheme ("MTR")

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

- Borrowers that were non-performing as at 31 December 2021, remained non-performing as at 31 December 2022 and who also received government allowances during the period January 2021 to December 2022, with facilities backed by primary residence with Open Market Value up to €250k;
- Borrowers that had a fully completed application to Estia Scheme and were assessed as eligible but not viable with a primary residence of up to €350k Open Market Value; and
- all applicants that were approved under Estia Scheme but their inclusion was terminated.

Under the MTR, eligible property owners will voluntarily surrender ownership of their residence to Cyprus Asset Management Company ('KEDIPES') which has been approved by the Government to provide and manage social housing and will be exempted from their mortgage loan, as the state will be covering fully the required rent on their behalf. KEDIPES will carry out a new valuation and a technical due diligence for the eligible applicants' property and if satisfied will approve the application and pay to the banks an amount equal to 65% of the Open Market Value of the primary residence in exchange for the mortgage release, the write off of the NPE loan and the transfer of the property title deeds.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.2 Balance Sheet Analysis (continued)

### B.2.5 Loan portfolio quality (continued)

#### Mortgage-To-Rent Scheme (“MTR”) (continued)

The eligible applicants will be able to acquire the primary residence after 5 years at a favourable price, below the Open Market Value.

The scheme has been launched in December 2023; it is expected to act as another tool to address NPEs in the Retail sector.

### B.2.6 Fixed income portfolio

Fixed income portfolio amounts to €3,548 mn as at 31 December 2023, compared €3,489 mn as at 30 September 2023 and to €2,500 mn as at 31 December 2022, increased by 2% on the prior quarter and by 42% on prior year. As at 31 December 2023, the portfolio represents 14% of total assets (net of TLTRO III) and comprises €3,117 mn (88%) measured at amortised cost and €431 mn (12%) at fair value through other comprehensive income (‘FVOCI’).

The fixed income portfolio measured at amortised cost is held to maturity and therefore no fair value gains/losses are recognised in the Group’s income statement or equity. This fixed income portfolio has high average rating at Aa3. The amortised cost fixed income portfolio as at 31 December 2023 has an unrealised gain of €3 mn, compared to an unrealised loss of €91 mn as at 30 September 2023, reflecting an improvement in the market value of this portfolio, following the reduction in bond yields.

### B.2.7 Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** is focused on the disposal of on-boarded properties resulting from debt for asset swaps. Cumulative sales of repossessed assets since the beginning of 2019 amount to €0.9 bn and exceed properties on-boarded in the same period of €0.5 bn.

During the year ended 31 December 2023, the Group completed disposals of €194 mn (compared to €162 mn in FY2022), resulting in a profit on disposal of c.€11 mn for FY2023 (compared to a profit of c.€16 mn for FY2022). Asset disposals are across all property classes, with 47% gross sale value in FY2023 relating to land.

During the year ended 31 December 2023, the Group executed sale-purchase agreements (SPAs) for disposals of 569 properties with contract value of €213 mn, compared to SPAs for disposals of 674 properties with contract value of €184 mn for FY2022.

In addition, the Group had a strong pipeline of €40 mn by contract value as at 31 December 2023, of which €29 mn related to SPAs signed (compared to a pipeline of €70 mn as at 31 December 2022, of which €47 mn related to SPAs signed).

REMU on-boarded €21 mn of assets in FY2023 (compared to additions of €86 mn in FY2022), via the execution of debt for asset swaps and repossessed properties.

As at 31 December 2023, assets held by REMU had a carrying value of €878 mn, (comprising properties of €826 mn classified as ‘Stock of property’ and €52 mn as ‘Investment properties’) of which €862 mn are repossessed properties, compared to €1,116 mn as at 31 December 2022 (comprising properties of €1,041 mn classified as ‘Stock of property’ and €75 mn as ‘Investment properties’).

#### Assets held by REMU

| **Assets held by REMU (Group)<br>€ mn** | **FY2023** | **FY2022** | **4Q2023** | **3Q2023** | qoq ±% | yoy ±% |
|---|---|---|---|---|---|---|
| Opening balance | **1,116** | 1,215 | 983 | 1,010 | -3% | -8% |
| On-boarded assets | **21** | 86 | 3 | 12 | -72% | -75% |
| Sales | **(194)** | (162) | (93) | (30) | 213% | 20% |
| Net impairment loss | **(47)** | (23) | (15) | (9) | 76% | 108% |
| Transfer to/from own properties | **(18)** | - | - | - | - | - |
| **Closing balance** | **878** | 1,116 | **878** | 983 | -11% | -21% |

## B. Preliminary Group Financial Results – Underlying Basis (continued)

### B.2 Balance Sheet Analysis (continued)

#### B.2.7 Real Estate Management Unit (REMU) (continued)

| Analysis by type and country<br>31 December 2023 (€ mn) | Cyprus | Greece | Total |
|---|---|---|---|
| Residential properties | 50 | 12 | 62 |
| Offices and other commercial properties | 115 | 13 | 128 |
| Manufacturing and industrial properties | 36 | 16 | 52 |
| Hotels | 17 | 0 | 17 |
| Land (fields and plots) | 416 | 4 | 420 |
| Golf courses and golf-related property | 199 | 0 | 199 |
| **Total** | 833 | 45 | 878 |

| 31 December 2022 (€ mn) | Cyprus | Greece | Total |
|---|---|---|---|
| Residential properties | 69 | 21 | 90 |
| Offices and other commercial properties | 180 | 14 | 194 |
| Manufacturing and industrial properties | 48 | 19 | 67 |
| Hotels | 24 | 0 | 24 |
| Land (fields and plots) | 502 | 4 | 506 |
| Golf courses and golf-related property | 235 | 0 | 235 |
| **Total** | 1,058 | 58 | 1,116 |

## B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.3 Income Statement Analysis

### B.3.1 Total income

| € mn | FY2023 | FY2022 IFRS 17[1] | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 | qoq ±% | yoy ±% |
|---|---|---|---|---|---|---|---|---|
| **Net interest income** | **792** | **370** | 220 | 214 | 196 | 162 | 3% | 114% |
| Net fee and commission income | **181** | 192 | 46 | 45 | 46 | 44 | 4% | -6% |
| Net foreign exchange gains and net gains/(losses) on financial instruments | **37** | 26 | 8 | 8 | 8 | 13 | 13% | 46% |
| Net insurance result | **54** | 44 | 16 | 13 | 15 | 10 | 19% | 20% |
| Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties | **10** | 13 | 3 | 2 | 3 | 2 | 28% | -23% |
| Other income | **18** | 17 | 3 | 3 | 9 | 3 | 8% | 10% |
| **Non-interest income** | **300** | **292** | **76** | **71** | **81** | **72** | 8% | 3% |
| **Total income** | **1,092** | **662** | **296** | **285** | **277** | **234** | 4% | 65% |
| Net Interest Margin (annualised) | 3.41% | 1.65% | 3.66% | 3.63% | 3.43% | 2.91% | 3 bps | 176 bps |
| Average interest earning assets (€ mn) | 23,211 | 22,483 | 23,858 | 23,383 | 22,903 | 22,638 | 2% | 3% |

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout is on a restated basis unless otherwise stated. For further details, please refer to to 'Commentary on Underlying Basis'.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

**Net interest income (NII)** for FY2023 amounted to €792 mn compared to €370 mn for FY2022, up 114% yoy, benefitting from higher interest rates on liquid assets and loans, growth of fixed income portfolio and well-managed deposit pass-through, notwithstanding the foregone NII on the NPE sale Helix 3 portfolio (c.€13 mn in FY2022) and end of TLTRO III favourable terms (c.€15 mn in FY2022).

**Net interest income (NII)** for 4Q2023 amounted to €220 mn at its peak level, compared to €214 mn for 3Q2023, up 3% qoq, attributable to the repricing of loans and liquid assets to higher rates and the continued low deposit pass-through at 18% (compared to 15% pass-through for 3Q2023).

**Quarterly average interest earning assets (AIEA)** for FY2023 amounted to €23,211 mn, up 3% yoy driven by the increase in liquid assets mainly as a result of the increase in deposits by c.€0.34 bn yoy and the issuance of senior preferred notes of €0.35 bn. Quarterly average interest earning assets for 4Q2023 was also up by 2% on prior quarter.

**Net interest margin (NIM)** for FY2023 amounted to 3.41% (compared to 1.65% for FY2022), up 176 bps yoy driven by the higher interest rate environment. Net interest margin (NIM) for 4Q2023 stood at 3.66% broadly flat qoq.

**Non-interest income** for FY2023 amounted to €300 mn (compared to €292 mn for FY2022, up 3% yoy) comprising net fee and commission income of €181 mn, net foreign exchange gains and net gains/(losses) on financial instruments of €37 mn, net insurance result of €54 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €10 mn and other income of €18 mn. The yoy increase relates to higher net foreign exchange gains and net gains/(losses) on financial instruments and net insurance result partly offset by lower net fee and commission income.

**Non-interest income** for 4Q2023 amounted to €76 mn (compared to €71 mn for 3Q2023, up 8% qoq) comprising net fee and commission income of €46 mn, net foreign exchange gains and net gains/(losses) on financial instruments of €8 mn, net insurance result of €16 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €3 mn and other income of €3 mn. The qoq increase relates mainly to increased net insurance result.

**Net fee and commission income** for FY2023 amounted to €181 mn (compared to €192 mn for FY2022, down 6% yoy); when disregarding the impact of the liquidity fees and NPE sale-related servicing fee, net fee and commission income was up 6% yoy, reflecting higher net credit card commissions and transactional fees.

**Net fee and commission income** for 4Q2023 amounted to €46 mn, broadly flat qoq.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.3 Income Statement Analysis (continued)

### B.3.1 Total income (continued)

**Net foreign exchange gains and net gains/(losses) on financial instruments** of €37 mn for FY2023 (comprising net foreign exchange gains of c.€28.5 mn and net gains on financial instruments of c.€8.5 mn), compared to €26 mn for FY2022 up 46% yoy, due to higher net gains on financial instruments.

**Net foreign exchange gains and net gains/(losses) on financial instruments** amounted to €8 mn for 4Q2023, flat qoq**.** Net foreign exchange gains and net gains/(losses) on financial instruments are considered volatile profit contributors.

**Net insurance result** amounted to €54 mn for FY2023, compared to €44 mn for FY2022, up 20% yoy, driven mainly by improved experience variance due to better claims experience and the reduction in the loss component from the insurance contracts (recognised upfront in line with IFRS 17) in life insurance business.

**Net insurance result** amounted to €16 mn for 4Q2023, compared to €13 mn for 3Q2023, up 19% qoq driven mainly by the improved experience variance in life insurance business.

**Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties** for FY2023 amounted to €10 mn (comprising net gains on disposal of stock of properties of €9 mn, net gains on disposal of investment properties of €2 mn and net loss from revaluation of investment properties of €1 mn), compared to €13 mn for FY2022. REMU profit remains volatile.

**Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties** for 4Q2023 amounted to €3 mn relating mainly to net gains on disposal of stock of properties, compared to €2 mn for 3Q2023.

**Total income** amounted to €1,092 mn for FY2023 (compared to €662 mn for FY2022, up 65% yoy), and to €296 mn for 4Q2023 (compared to €285 mn for 3Q2023, up 4% qoq), driven by strong growth in net interest income, as explained above.

## B. Preliminary Group Financial Results – Underlying Basis (continued)

### B.3. Income Statement Analysis (continued)

### B.3.2 Total expenses

| € mn | FY2023 | FY2022 IFRS 17[1] | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 | qoq ±% | yoy ±% |
|---|---|---|---|---|---|---|---|---|
| Staff costs | (192) | (181) | (51) | (48) | (47) | (46) | 5% | 6% |
| Other operating expenses | (149) | (144) | (42) | (38) | (35) | (34) | 15% | 4% |
| **Total operating expenses** | **(341)** | **(325)** | **(93)** | **(86)** | **(82)** | **(80)** | 9% | 5% |
| Special levy on deposits and other levies/contributions | (43) | (38) | (13) | (12) | (7) | (11) | 10% | 10% |
| **Total expenses** | **(384)** | **(363)** | **(106)** | **(98)** | **(89)** | **(91)** | 9% | 6% |
| Cost to income ratio | **35%** | 55% | **36%** | 34% | 32% | 39% | 2 p.p. | -20 p.p. |
| Cost to income ratio excluding special levy on deposits and other levies/contributions | **31%** | 49% | **32%** | 30% | 29% | 34% | 2 p.p. | -18 p.p. |

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout is on a restated basis unless otherwise stated. For further details, please refer to 'Commentary on Underlying Basis'.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

**Total expenses** for FY2023 were €384 mn (compared to €363 mn for FY2022, up 6% yoy), 50% of which related to staff costs (€192 mn), 39% to other operating expenses (€149 mn) and 11% to special levy on deposits and other levies/contributions (€43 mn). Total expenses for 4Q2023 were €106 mn compared to €98 mn for 3Q2023, up 9% qoq, impacted by seasonally higher other operating expenses (as expected) and higher staff costs on the performance related pay accrual and higher termination costs.

**Total operating expenses** amounted to €341 mn for FY2023 (compared to €325 mn for FY2022, up 5% yoy) with savings from the efficiency actions undertaken in 2022, partly offsetting inflationary pressures. Total operating expenses for FY2023 included c.€11 mn performance related pay accrual (both the long-term incentive Plan ('LTIP') and Short-term Incentive Plan ('STIP')), c.€7.5 mn small-scale Voluntary Staff Exit Plan ('VEP') and €2.5 mn cost on the introduction of a Reward Programme to reward performer borrowers. When disregarding the aforementioned, total operating expenses for FY2023 amounted to c.€320 mn down 1% on prior year. Total operating expenses amounted to €93 mn for 4Q2023, compared to €86 mn for 3Q2023, up 9% qoq.

**Staff costs** for FY2023 were €192 mn (compared to €181 mn for FY2022, up 6% yoy) due to the small- scale VEP of c.€7.5 mn and the performance related pay accrual of c.€11 mn, partly offset by the savings of the VEP that took place in 3Q2022. The performance-related pay accrual relates to the Short-Term Incentive Plan and the Long-Term Incentive Plan. The Short-Term Incentive Plan involves variable remuneration to selected employees and will be driven by both, delivery of the Group's strategy as well as individual performance. During FY2023 a small-scale, targeted VEP took place, by which 48 full-time employees were approved to leave the Group at a total cost of c.€7.5 mn. Staff costs for 4Q2023 were €51 mn, up 5% qoq due to higher performance-related pay accrual and exit cost compared to prior quarter.

At the Annual General Meeting which took place in May 2022, a special resolution was approved for the establishment and implementation of the share based Long-term Incentive Plan ('LTIP'). In December 2022 the Group granted 819,860 share awards to 22 eligible employees under the LTIP, comprising the Extended Executive Committee of the Group. The awards granted in December 2022 are subject to a three year performance period for 2022-2024 (with all performance conditions being non-market performance conditions). In October 2023, 479,160 share awards were granted to 21 eligible employees, comprising the Extended Executive Committee of the Group. The awards granted in October 2023 are subject to a three-year performance period 2023-2025 (with all performance conditions being non market performance conditions).

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

As at 31 December 2023, the Group employed 2,830 persons compared to 2,913 persons as at 30 September 2023 and to 2,889 persons as at 31 December 2022.

**Other operating expenses** for FY2023 amounted to €149 mn, compared to €144 mn for FY2022, driven mainly by inflationary pressures and higher expenses due to a Reward Programme launched to reward performing borrowers under Antamivi Reward Scheme.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.3 Income Statement Analysis (continued)

### B.3.2 Total expenses (continued)

**Other operating expenses** for 4Q2023 amounted to €42 mn, up 15% qoq due to seasonally higher expenses in professional fees and IT expenses.

**Special levy on deposits and other levies/contributions** for FY2023 amounted to €43 mn compared to €38 mn for FY2022, up 10% yoy, driven by the increase of deposits of €0.34 bn yoy. Special levy on deposits and other levies/contributions for 4Q2023 amounted to €13 mn broadly flat qoq, reflecting mainly the net impact of a levy in the form of annual guarantee fee relating to the expected revised income tax legislation of c.€5 mn in 4Q2023 (see Section B.2.1 'Capital Base') and the contribution of the Bank to the Deposit Guarantee Fund (DGF) of c.€4 mn which relates to 2H2023 and was recorded in 3Q2023 (in line with IFRSs).

The **cost to income ratio excluding special levy on deposits and other levies/contributions** for FY2023 was 31% compared to 49% for FY2022, down 18 p.p. yoy. The yoy decrease is driven by the higher total income and disciplined cost management. The cost to income ratio excluding special levy on deposits and other levies/contributions for 4Q2023 was 32%, up 2 p.p. qoq.

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.3 Income Statement Analysis (continued)

### B.3.3 Profit before tax and non-recurring items

| € mn | FY2023 | FY2022 IFRS 17[1] | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 | qoq±% | yoy +% |
|---|---|---|---|---|---|---|---|---|
| **Operating profit** | **708** | **299** | **190** | **187** | **188** | **143** | 2% | 137% |
| Loan credit losses | (63) | (47) | (19) | (20) | (13) | (11) | -5% | 34% |
| Impairments of other financial and non-financial assets | (53) | (33) | (15) | (8) | (19) | (11) | 97% | 66% |
| Provisions for pending litigations, claims, regulatory and other matters (net of reversals) | (28) | (11) | (8) | (6) | (8) | (6) | 22% | 140% |
| **Total loan credit losses, impairments and provisions** | **(144)** | **(91)** | **(42)** | **(34)** | **(40)** | **(28)** | 24% | 59% |
| **Profit before tax and non-recurring items** | **564** | **208** | **148** | **153** | **148** | **115** | -3% | 171% |
| Cost of risk | **0.62%** | 0.44% | **0.73%** | **0.76%** | **0.51%** | **0.44%** | -3 bps | 18 bps |

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout is on a restated basis unless otherwise stated. For further details, please refer to 'Commentary on Underlying Basis'.

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

**Operating profit** for FY2023 amounted to €708 mn, compared to €299 mn for FY2022 (up 137% yoy). The yoy increase is driven by the significant increase in net interest income. Operating profit for 4Q2023 amounted to €190 mn, broadly flat qoq.

**Loan credit losses** for FY2023 were €63 mn of which €19 mn were recorded in 4Q2023, broadly flat on prior quarter, compared to €47 mn for FY2022 (up 34% yoy) and include €19 mn higher loan credit losses on specific customers with idiosyncratic characteristics assessed as 'Unlikely to pay' ('UTPs) exposures, even though they adhere to their repayment schedule and present no arrears.

**Cost of risk** for FY2023 is equivalent to 62 bps, in line with 2023 target, compared to a cost of risk of 44 bps for FY2022, up by 18 bps yoy. **Cost of risk** for 4Q2023 was 73 bps, broadly flat qoq.

At 31 December 2023, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures (please refer to Section F. 'Definitions and Explanations' for definition) totalled €267 mn (compared to €275 mn at 30 September 2023 and to €282 mn at 31 December 2022) and accounted for 2.7% of gross loans (flat on prior quarter and compared to 2.8% for 31 December 2022).

**Impairments of other financial and non-financial assets** for FY2023 amounted to €53 mn, compared to €33 mn for FY2022, up €20 mn yoy, driven mainly by higher impairments on specific, large, illiquid REMU stock properties. Impairments of other financial and non-financial assets for 4Q2023 amounted to €15 mn compared to €8 mn for 3Q2023.

**Provisions for pending litigations, claims regulatory and other matters (net of reversals)** for FY2023 amounted to €28 mn, compared to €11 mn for FY2022. The yoy increase is driven mainly by the revised approach on pending litigation fees and provisions in relation to certain legacy matters as well in relation to the run-down of legacy and non-core operations of the Group. Provisions for pending litigations, claims, regulatory and other matters (net of reversals) for 4Q2023 amounted to €8 mn compared to €6 mn for 3Q2023.

**Profit before tax and non-recurring items** for FY2023 totalled to €564 mn, compared to €208 mn for FY2022. Profit before tax and non-recurring items for 4Q2023 amounted to €148 mn compared to €153 mn for 3Q2023 (down 3% qoq).

## B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.3 Income Statement Analysis (continued)

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

| € mn | FY2023 | FY2022 IFRS 17[1] | 4Q2023 | 3Q2023 | 2Q2023 | 1Q2023 | qoq ±% | yoy +% |
|---|---|---|---|---|---|---|---|---|
| **Profit before tax and non-recurring items** | **564** | **208** | **148** | **153** | **148** | **115** | -3% | 171% |
| Tax | (73) | (31) | (10) | (23) | (22) | (18) | -56% | 133% |
| Profit attributable to non-controlling interests | (2) | (3) | 0 | (1) | 0 | (1) | -94% | -39% |
| **Profit after tax and before non-recurring items (attributable to the owners of the Company)** | **489** | **174** | **138** | **129** | **126** | **96** | 7% | 181% |
| Advisory and other transformation costs – organic | (2) | (11) | - | - | (1) | (1) | - | -80% |
| **Profit after tax – organic (attributable to the owners of the Company)** | **487** | **163** | **138** | **129** | **125** | **95** | 7% | 199% |
| Provisions/net profit/(loss) relating to NPE sales | - | 1 | - | - | - | - | - | -100% |
| Restructuring and other costs relating to NPE sales | - | (3) | - | - | - | - | - | -100% |
| Restructuring costs – Voluntary Staff Exit Plan (VEP) | - | (104) | - | - | - | - | - | -100% |
| **Profit after tax (attributable to the owners of the Company)** | **487** | **57** | **138** | **129** | **125** | **95** | **7%** | - |

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout is on a restated basis unless otherwise stated. For further details, please refer to 'Commentary on Underlying Basis'.

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

The **tax charge** for 4Q2023 is €10 mn down 56% qoq mainly due to the recognition of deferred tax assets relating to temporary differences between tax and accounting treatment and totalled to €73 mn for FY2023, compared to €31 mn for FY2022.

On 22 December 2022, the European Commission approved Directive 2022/2523 which provides for a minimum effective tax rate of 15% for the global activities of large multinational groups (Pillar Two tax). The Directive that follows closely the OECD Inclusive Framework on Base Erosion and Profit Shifting should be transposed by the Member States throughout 2023, entering into force on 1 January 2024. In Cyprus, the legislation has not been substantively enacted at the balance sheet date however it is expected to be enacted within 2024. The Group expects to be in scope of the draft legislation and has performed an initial assessment of the potential impact of Pillar Two income taxes and does not expect this to be significant. However, the actual impact will depend on the Group's consolidated income statement variables at the time of implementation. Because of the calculation complexity resulting from these rules and as the final legislation has yet to be implemented, the effects of this reform are still being examined and the Group will further refine the quantification in view of the first accounting recognition of the additional tax charge in the Group's consolidated accounts in 2024.

**Profit after tax and before non-recurring items (attributable to the owners of the Company)** for FY2023 is €489 mn, compared to €174 mn for FY2022. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 4Q2023 is €138 mn, compared to €129 mn for 3Q2023.

**Advisory and other transformation costs – organic** for FY2023 are €2 mn, compared to €11 mn for FY2022, down 80% yoy. Advisory and other transformation costs – organic for 4Q2023 are nil, flat qoq.

**Profit after tax arising from the organic operations (attributable to the owners of the Company)** for FY2023 amounted to €487 mn, compared to €163 mn for FY2022. Profit after tax arising from the organic operations (attributable to the owners of the Company) amounted to €138 mn for 4Q2023, compared to €129 mn for 3Q2023 (up 7% qoq).

Following completion of Helix 3 project, there are no amounts recognised for **provisions/net profit/(loss) relating to NPE sales** for FY2023.

**Restructuring and other costs relating to NPE sales** for FY2023 was nil compared to €3 mn for FY2022 (relating to the agreements for the sale of portfolios of NPEs).

# B. Preliminary Group Financial Results – Underlying Basis (continued)

## B.3 Income Statement Analysis (continued)

### B.3.4 Profit after tax (attributable to the owners of the Company) (continued)

**Restructuring costs relating to the Voluntary Staff Exit Plan (VEP)** of €104 mn in FY2022 mainly related to the Voluntary Staff Exit Plan (VEP) that took place in 3Q2022. In July 2022 the Group completed a VEP which led to the reduction of the Group's full-time employees by 16%, at a total cost of €101 mn, recorded in the consolidated income statement in 3Q2022. The gross annual savings were estimated at c.€37 mn or 19% of staff costs with a payback period of 2.7 years.

**Profit after tax** attributable to the owners of the Company for FY2023 amounts to €487 mn, corresponding to a ROTE of 24.8%, compared to €57 mn for FY2022 (compared to a ROTE of 3.2% for FY2022). Profit after tax attributable to the owners of the Company for 4Q2023 amounts to €138 mn, compared to €129 mn for 3Q2023 (up 7% qoq). ROTE stands at 25.6% for 4Q2023, flat on prior quarter. The adjusted recurring profitability (i.e. defined as the Group's profit after tax before non-recurring items (attributable to the owners of the Company) taking into account distributions under other equity instruments such as the annual AT1 coupon) amounted to €132 mn for 4Q2023 compared to €122 mn for 3Q2023 and totaled €455 mn for FY2023 compared to €160 mn for FY2022.

## C. Operating Environment

War and geopolitics can be very disruptive to the economy and society and the extent to which the international system is intertwined, is often underestimated. Meantime wars continue to rage in Ukraine and in the Middle East, adding to uncertainty and instability. The attacks on merchant shipping in the Red Sea from the Houthis in Yemen, is a reflection of the uncertainty. The attacks are forcing many carriers to change route adding days and costs to shipping which eventually will add to inflationary pressures, with implications for monetary policy.

At the same time a large number of countries is preparing for elections (i.e .Russia in March 2024, in the European Union for the European Parliament in June 2024, and in the United States in November 2024) adding further uncertainty. Overall, the economic outlook, locally and globally, in the short and the medium term is clouded by this rising uncertainty.

The European Commission's Autumn Forecast projects GDP growth in 2023 at 0.6% in both the EU and the euro area. Going forward, growth is expected to rebound mildly in the euro area to 1.2% in 2024 and to 1.6% in 2025. HICP inflation is forecast to decrease from 5.6% in 2023, to 3.2% in 2024, and 2.2% in 2025, other things being equal. Uncertainty and downside risks to the economic outlook have increased in recent months, primarily related to the evolution of the geopolitical environment.

Real GDP growth in Cyprus averaged 2.5% in the four quarters and was respectively 3.2%, 2.2%, 2.2% and 2.3% in the first, second, third and fourth; quarter. Trade, transport, and accommodation contributed more than half of the recorded growth in the period. Accommodation, which is tourism driven, continues to reflect the recovery from the Covid collapse, and so the respective contribution to the overall growth of the economy is higher than normal. Other important contributions came from the sectors of information and communications, industry and public administration, education and health. Financial services and professional services made small negative contributions. The former reflect slower volume growth and continuing deleveraging. The latter reflects an accumulated weakness related to the Ukraine war related sanctions.

Private consumption expanded strongly supported by high employment and rising wages. The automatic partial indexation of wages (COLA) has somewhat cushioned the negative impact of elevated prices on consumption. Investment, particularly in residential construction, has been supported by the interest-subsidisation scheme for mortgages and an influx of foreign companies.

In the labour market employment growth slowed in the first three quarters of 2023, averaging 0.8% compared with 3.2% and 2.8% respectively in 2021 and 2022. The unemployment rate continued to decline from 6.8% average in 2022, to 6.0% in the third quarter of 2023, seasonally adjusted.

Inflation measured by the Harmonised Index of Consumer Prices, decreased to an average of 3.9% in Cyprus and 5.4% in the Euro area in 2023, from 8.1% on average in 2022 in Cyprus and 8.4% in the Euro Area. Core inflation (defined as total headline inflation excluding energy and food) for 2023 was 2.8% in Cyprus and 4.9% in the Euro area. The decline in the headline inflation was driven by the non-core components of energy and food, while core inflation was stickier. Harmonised inflation is expected to continue to decelerate in the medium term falling to around 3.0% and 2.2% respectively in 2024 and 2025 according to the European Commission's autumn forecasts assuming falling energy prices and support measures adopted by the government.

Tourist activity continued to improve in 2023 after a strong performance in 2022. Arrivals increased by 20.1% from a year earlier, reaching 3.8 million persons, which corresponds to 97% of arrivals in 2019 before Covid. Likewise, receipts between January 2023 to November 2023 increased by an estimated 22.5% reaching an estimated €3 billion for the year, higher than total receipts in the respective period in 2019.

In public finances, there have been significant improvements in budget and debt dynamics including debt affordability indicators. The recovery in 2021 was underpinned by a significant increase in general government revenue and a relative decrease in government expenditure. The result was a reduction in the budget deficit to 1.9% of GDP, from a deficit of 5.7% of GDP in 2020. In 2022 the budget surplus rose to 2.4% of GDP and gross debt dropped to 85.6% of GDP from 99.3% of GDP in 2021. The budget surplus in 2023 is estimated at 2.4% of GDP according to the Cyprus Ministry of Finance with gross debt falling to 78.4% of GDP. The budget balance is forecast to remain in surplus at 2.1% of GDP in 2024 and 2.5% in 2025. Gross debt is set to decline strongly in relation to GDP, to 71.5% and 66.3% respectively, on the back of nominal GDP growth and substantial budget surpluses. Debt affordability metrics are favourable and are expected to remain solid in 2023-2024, as gross financing needs are moderate, and the cash buffer gives the government a high degree of financing flexibility.

The ECB left its interest rates unchanged at the latest Governing Council meeting on 25 January 2024. The minimum refinancing operations rate remained at 4.5%, compared with zero at the start of the tightening cycle in July 2021, while the ECB deposit facility rate is at 4.0%, compared with -50 bps in July 2021. The ECB's policy remains focussed on ensuring that inflation returns to the 2% medium-term target in a timely manner, and so interest rates will remain at sufficiently restrictive levels for as long as necessary.

## C. Operating environment (continued)

Banks managed to weather the pandemic crisis well, with their liquidity and capital buffers intact. Non-performing exposures (NPE) continued their declining trend thanks mostly to sales packages by the two largest banks. Non-performing loans were 8.3% of gross loans at the end of October 2023, according to data from the Central Bank of Cyprus compared with 9.5% at the end of December 2022. The NPE ratio in the non-financial corporations segment was 7.3% and that of households was 11.2%. Private indebtedness continue to decline with total loans to residents excluding the government dropping to about 70% of GDP at the end of November 2023. New lending in 2023 remained in line with new lending volumes in 2022, showing signs of slowing in the last quarter of the year, particularly in relation to housing loans, reflecting the tighter monetary conditions prevailing.

## Sovereign ratings

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

In December 2023, **Fitch Ratings** affirmed Cyprus' long-term foreign currency issuer default rating at 'BBB' and revised its outlook from stable to positive. This follows an affirmation of Cyprus' long-term foreign currency issuer default rating with a stable outlook in June 2023, and the upgrade in March 2023. The upgrade and affirmation reflect the improvement in public finances and government debt, as well as strong GDP growth, the resilience of the Cypriot economy to external shocks, and the improvement in the banking sector's asset quality.

In September 2023, **Moody's Investors Service** upgraded the long-term issuer and senior unsecured ratings of the Government of Cyprus to Baa2 from Ba1. The outlook was revised to stable from positive. This is a two-notch upgrade of Cyprus' ratings, reflecting broad-based and sustained improvements in the country's credit profile as a result of past and ongoing economic, fiscal and banking reforms. Economic resilience has improved and medium-term growth prospects remain strong. Fiscal strength has also improved significantly, with a positive debt trend and sound debt affordability metrics. The stable outlook balances the positive credit trends with remaining challenges.

In addition, **S&P Global Ratings** revised its outlook on Cyprus to positive from stable in September 2023 and affirmed Cyprus' long-term local and foreign currency sovereign ratings at BBB. The positive outlook reflects the ongoing macroeconomic normalisation since the country's financial crisis in 2012-2013, with the government on track to achieve steady fiscal surpluses and a declining debt-to-GDP ratio in the coming years. The positive outlook also reflects the significant progress made in the banking sector.

Also in September 2023, **DBRS Ratings GmbH (DBRS Morningstar)** upgraded the long-term foreign and local currency issuer ratings of the Republic of Cyprus from BBB to BBB (high). The rating action is stable. The upgrade is driven by the recent decline in government debt and the expectation that public debt metrics will continue to improve over the next few years, while economic growth is expected to remain among the strongest in the euro area. The stable outlook balances the recent favourable fiscal dynamics with downside risks to the economic outlook.

## D. Business Overview

### Credit ratings

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In December 2023, **S&P Global Ratings** upgraded the long-term issuer credit rating of the Bank to BB and maintained a positive outlook. The upgrade by one notch reflects the significant progress Cypriot banks have made toward rebalancing their funding profiles, reducing the dependence on non-resident deposits, the improved operating environment and the profitability prospects due to higher interest rates, improved efficiency and contained credit losses. In November 2023, **Fitch Ratings** upgraded long-term issuer default rating to BB from B+, whilst maintaining the positive outlook. The two notch upgrade reflects a combination of Fitch's improved assessment of the Cypriot operating environment and continued improvement in the Bank's credit profile, strengthened capitalisation, reduced stock of legacy problem assets and structurally improved profitability. In October 2023 **Moody's Investors Service** upgraded the Bank's long-term deposit rating to the investment grade Baa3 from Ba1, while the outlook remained positive. The main drivers for this upgrade are the continued resilience of the Cypriot economy and credit conditions and the continued improvements in Bank's solvency profile, with further gradual improvements in asset quality and capital metrics, and a significant strengthening in the Bank's core profitability.

### Financial performance

The Group is a leading, financial and technology hub in Cyprus. During the quarter ended 31 December 2023, the Group delivered another strong set of financial results, generating a ROTE of 25.6%, the fourth consecutive quarter with a ROTE over 20%. Overall, the Group generated €487 mn profit after tax for the year, corresponding to a ROTE of 24.8%, surpassing its 2023 targets, supported by strong net interest income growth, whilst non-interest income remained a significant contributor to the Group's profitability and diversified model, covering 88% of total operating expenses. The Group's efficiency ratio was significantly improved on prior year reflecting continued revenue growth and disciplined cost management amidst inflationary pressures. The Group's tangible book value per share improved by 24% yoy to €4.93. **Currently, the Group enters in a declining interest rate environment with the path of interest rate normalisation being very volatile. The Group reiterates its expectation of delivering a ROTE of over 17% based on 15% CET1 ratio (excluding amounts reserved for distribution) for 2024. Interest rates are expected to normalise to around 2.0-2.5% by 2025 and the Group's 2025 ROTE target of over 16% based on 15% CET1 ratio (excluding amounts reserved for distribution) is reaffirmed.**

#### *Interest rate environment*

The structure of the Group's balance sheet is highly liquid, and hence benefitted immediately from the rises in interest rates. As at 31 December 2023, cash balances with ECB (excluding TLTRO III of c.€2.0 bn) amounted to c.€7.6 bn. The repricing of the references gradually benefited the interest income on loans as almost half of the Group's loan portfolio is Euribor based. As a result, the net interest income for the year ended 31 December 2023 amounted to €792 mn, more than double compared to the previous year. This increase was underpinned by faster and steeper than expected interest rate rises as well as a resilient low cost of deposits.

In a dynamic interest rate environment, the Group's interest earning assets are in majority floating rate. Therefore, the Group undertook pro-active solutions to reduce the net interest income sensitivity by converting some of its floating assets to fixed rate assets. These actions included: investing in fixed rate bonds, initiating the use of reverse repos, offering fixed rate loans and engaging into receive fixed interest rate swaps. Simultaneously, about one fifth of the Group's loan portfolio is linked with the Bank's base rate which provides a natural hedge against the cost of deposits. Overall, these actions have led to a reduction in the net interest income sensitivity (to a parallel shift in interest rates by 100 bps) by €16 mn compared to prior year.

The Group intends to increase its structural hedging position by further €4-5 bn (with average duration of 3-4 years) by end of 2024, subject to market conditions, via partial hedge of non-rate sensitive deposits through receive fixed rate swaps, further investment in fixed rate bonds, additional reverse repos and continuing offering fixed rate loans. In this respect, it is expected that NII sensitivity by end-2024 will decrease further by c.€30-40 mn.

In line with the average market forward rates for January 2024, the ECB deposit facility rate is expected to average to 3.4% in 2024 (compared to 3.3% in 2023), with recent market expectation indicating great volatility in the path of rate cuts. Nevertheless, ECB deposit facility rate is expected to normalise by 2025, with ECB deposit facility rate expected to reduce to 2.7% by 4Q2024 and to 2.0% by 4Q2025. Euribor rates have already started to move in expectation of these moves, with 6-month Euribor expected to average to 3.2% in 2024 (compared to 3.7% in 2023). As a result, the Group's net interest income is expected to exceed €670 mn (compared to over €625 mn previously guided in June 2023) with a quarterly declining trend. This updated guidance incorporates assumptions on deposit pass-through, deposit mix, loan and fixed income portfolio growth, the impact of structural hedging and wholesale funding costs. For further details, please refer to the Section 'E. Strategy and Outlook'.

# D. Business Overview (continued)

### *Growing revenues in a more capital efficient way*

The Group remains focused on growing revenues in a more capital efficient way through growth of high-quality new lending and the growth in niche areas, such as insurance and digital products that provide further market penetration and diversify through non-banking operations.

The Group has continued to provide high quality new lending in FY2023 via prudent underwriting standards. Growth in new lending in Cyprus has been focused on selected industries in line with the Bank's target risk profile. During the year ended 31 December 2023, new lending remained strong at €2,025 mn, despite the rising interest rate environment. Gross performing loan book remained broadly flat yoy as repayments offset new lending. **Low single-digit loan growth per annum for 2024 and 2025 is expected.**

Fixed income portfolio continued to grow in 2023 to €3,548 mn, and currently represents 14% of total assets (net of TLTRO III). This portfolio is mostly measured at amortised cost and is highly rated with average rating at Aa3. The amortised cost fixed income portfolio as at 31 December 2023 has an unrealised gain of €3 mn, compared to an unrealised loss of €91 mn as at 30 September 2023, reflecting an improvement in the market value of this portfolio, following the reduction in bond yields. **Careful expansion of fixed income portfolio is expected, subject to market conditions, so that fixed income portfolio represents c.16% of total assets by 31 December 2024.**

Separately, the Group focuses to continue improving revenues through multiple less capital-intensive initiatives, with a focus on fees and commissions, insurance and non-banking opportunities, leveraging on the Group's digital capabilities. During the year ended 31 December 2023, non-interest income amounted to €300 mn, remaining an important contributor to the Group's profitability, and covering overall 88% of the Group's total operating expenses and **is expected to continue covering 70-80% of the Group's total operating expenses for 2024-2025.**

In 2023, net fee and commission income is negatively affected by the termination of liquidity fees in December 2022 and an NPE sale-related servicing fee in mid-February 2023. When disregarding the aforementioned impact of the liquidity fees and NPE sale-related servicing fee, net fee and commission income increased by 6% on prior year, reflecting higher net credit card commissions and transactional fees. **In the following two years, net fee and commission income is expected to increase broadly in line with economic growth.**

Net fee and commission income is enhanced by transaction fees from the Group's subsidiary, **JCC Payment Systems Ltd** (JCC), a leading player in the card processing business and payment solutions, 75% owned by the Bank. During the year ended 31 December 2023, JCC's net fee and commission income contributed 10% of total non-interest income and amounted to €30 mn, up 11% yoy, backed by strong transaction volume.

The Group's **insurance companies,** EuroLife and GI are respectively leading players in the life and general insurance business in Cyprus, and have been providing recurring and improving income, further diversifying the Group's income streams. The net insurance result for the year ended 31 December 2023 contributed 18% of non-interest income and amounted to €54 mn, up 20% yoy, reflecting improved experience variance in life insurance business; insurance companies remain valuable and sustainable contributors to the Group's profitability.

Finally, the Group through the **Digital Economy Platform (Jinius)** ('the Platform') aims to support the national digital economy by optimising processes in a cost-efficient way, allow the Bank to strengthen its client relationships, create cross-selling opportunities as well as to generate new revenue sources over the medium term, leveraging on the Bank's market position, knowledge and digital infrastructure. The first Business-to-Business services are already in use by clients and include invoice, remittance, tender and ecosystem management. Currently, over 2,000 companies are registered in the platform and over €360 mn cash were exchanged via the platform in 2023 through invoicing and remittance services. In February 2024 the Business-to-Consumer service was launched, a Product Marketplace aiming to increase the touch points with customers. Currently over 50 retailers were onboarded in fashion, technology sectors and over 100k products were embedded in the Marketplace.

### *Lean operating model*

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

The efficiency actions of the Group in 2022 to maintain operating expenses under control in an inflationary environment included further branch footprint optimisation and substantial streamline of workforce. In 2022 the Group successfully completed a Voluntary Staff Exit Plan (VEP) through which 16% of the Group's full-time employees were approved to leave at a total cost of €101 mn. Following the completion of the VEP, the gross annual savings were estimated at c.€37 mn or 19% of staff costs with a payback period of 2.7 years. Additionally, in January 2022, one of the Bank's subsidiaries completed a small-scale targeted VEP, through which a small number of full-time employees were approved to leave at a total cost of €3 mn. In relation to branch restructuring, during 2022 the Group reduced the number of branches by 20 to 60, a reduction of 25%.

### *Lean operating model* (continued)

In 2023 the Group completed a small-scale, targeted VEP through which 48 full-time employees were approved to leave at a total cost of c.€7.5 mn, recorded in staff costs.

In addition, staff costs for the year ended 31 December 2023 include c.€11 mn staff cost rewards, namely the Short-term Incentive Plan and the Long-term Incentive Plan. The Short-term Incentive Plan involves variable remuneration to selected employees and will be driven by both, delivery of the Group's strategy as well as individual performance.

At the Annual General Meeting which took place in May 2022, a special resolution was approved for the establishment and implementation of the share based Long-term Incentive Plan ('LTIP'). In December 2022 the Group granted 819,860 share awards to 22 eligible employees under the LTIP, comprising the Extended Executive Committee of the Group. The awards granted in December 2022 are subject to a three year performance period for 2022-2024 (with all performance conditions being non-market performance conditions). In October 2023, 479,160 share awards were granted to 21 eligible employees, comprising the Extended Executive Committee of the Group. The awards granted in October 2023 are subject to a three-year performance period 2023-2025 (with all performance conditions being non market performance conditions).

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

The Group's total operating expenses for the year ended 31 December 2023 amounted to €341 mn, up by 5% yoy with savings partly offsetting inflationary pressures. Total operating expenses excluding exit costs of c.€7.5 mn, variable pay (STIP and LTIP) of c.€11 mn and the cost of €2.5 mn for Reward Programme, were reduced by 1% yoy. The cost to income ratio excluding special levy on deposits and other levies/contributions for the year ended 31 December 2023 was reduced further to 31%, 18 p.p. down compared to FY2022, driven mainly by the higher total income and disciplined cost management. Maintaining cost discipline management is a key priority. **The cost to income ratio excluding special levy on deposits and other levies/contributions for 2024 of c.40% is reaffirmed, reflecting mainly lower income due to lower rates.**

*Transformation plan*

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

*Digital transformation*

In the dynamic world of banking, the Group stands as a pioneer of digital banking innovation in Cyprus, reshaping the banking experience into something more intuitive, more responsive, and more aligned with the contemporary needs of its customers, consistently pushing the boundaries to offer unparalleled banking services. The Group aims to continue to innovate, and simplify the banking journey, providing a unique and personalised experience to each of its customers.

The Group's digital channels continue to grow. As at 31 December 2023, the Group's digital community has increased to more than 450K active subscribers, both on Internet Banking and the BoC Mobile App, improving by 9.4% yoy. Likewise, the BoC Mobile App, had more than 410K active subscribers as at 31 December 2023 and increased by 14.4% since the beginning of the year. This app is a central pillar in the Group's ongoing endeavour to constantly refine, expand, and elevate its digital services, ensuring that every interaction is a testament to its commitment to digital excellence.

During 4Q2023, the Group continued to enrich and improve its digital portfolio with new innovative services to its customers. The redesign of the Home Insurance flow in Mobile App for improved user experience that will lead to a substantial increase in user engagement, ultimately translating into higher adoption rates and amplified sales figures. A new feature 'View Card Details' was launched in BOC Mobile App empowering users with greater control and accessibility to their essential payment information. This new functionality enables users to effortlessly access crucial card details, including card number, expiry date, and CVV, directly within BOC mobile app. Finally, the "Youth Culture Card" was launched, a collaboration with the esteemed Government Minister of Culture where the Group introduced the Youth Culture Card, a transformative initiative aimed at fostering cultural engagement among young adults. The Youth Culture Card, designed for individuals aged 18 and above, is a prepaid card loaded with €220 in credit, empowering recipients to immerse themselves in a diverse array of enriching cultural experiences throughout the year.

One of the Group's latest digital innovations, Quickloans, accessible through both the BoC Mobile App and Internet Banking, has transformed the traditional loan process, enabling customers to obtain a credit facility decision instantly, without the need to visit a branch. Since the beginning of the year, over 33k applications were processed, granting €100 mn new loans.

## D. Business Overview (continued)

### ***Lean operating model*** (continued)

*Digital transformation* (continued)

The digital signing feature, launched in July 2023 further simplified the process of allowing customers to apply, sign, and disburse loans up to €15k and car loans up to €35k efficiently. In collaboration with Genikes Insurance, an insurance plan purchase was integrated into BOC Mobile App, enabling customers to access car or home insurance plans through the app at lower rates than branch prices. Digital insurance sales for the year ended 31 December 2023 amounted to €415k, compared to €68k in FY2022, reflecting around 1,400 policies in 2023 compared to c.230 policies in 2022.

As at 31 December 2023, 95.6% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by 11.8 p.p. from 83.8% in June 2020). In addition, 84.1% of individual customers were digitally engaged (up by 11.7 p.p. from 72.4% in June 2020), choosing digital channels over branches to perform their transactions. Furthermore, digital account openings increased by 108% in 2023 to 9,715 from 4,667 in 2022 and new debit cards increased by 156% yoy to 11,536 in 2023.

### ***Asset quality***

Balance sheet de-risking was largely completed in 2022, marked by the completion of Project Helix 3 in November 2022 which refers to the sale of non-performing exposures with gross book value of c.€550 mn as at the date of completion. As at 31 December 2023, the Group's NPE ratio stood at 3.6%, considerably below its 2023 target of reaching an NPE ratio below 4%. The Group's priorities remain intact, maintaining high quality new lending with strict underwriting standards and preventing asset quality deterioration. **The NPE ratio target for the year ended 31 December 2024 is updated and is currently expected to stand at c.3% whilst the NPE ratio target of below 3% by end-2025 is reaffirmed. The cost of risk for 2024-2025 is expected to trend towards normalised levels of 40-50 bps.**

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

Climate change and transition to a sustainable economy is one of the greatest challenges. As part of its vision to be the leading financial hub in Cyprus, the Group is determined to **lead the transition of Cyprus to a sustainable future**. The Group continuously evolves towards its ESG agenda and continues to progress towards building a forward-looking organisation embracing ESG in all aspects of business as usual. In 2023, the Company received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment.

Reaffirming its strong commitment to sustainability and to the long term value creation for all its stakeholders, in November 2023, the Bank was the first Bank in Cyprus to become an official signatory of the United Nations Principles for Responsible Banking representing a single framework for a sustainable banking industry developed through a collaboration between banks worldwide and the United Nations Environment Programme Finance Initiative (UNEP FI).

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

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

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

For the Group to continue its progress against its primary ESG targets and address the evolving regulatory expectations, it further enhanced in 2023, its ESG working plan which was established in 2022. Progress on the ESG working plan is closely monitored by the Sustainability Committee, the Executive Committee and the Board Committees on a quarterly basis.

*Environmental Pillar*

The Group has estimated the Scope 1 and Scope 2 greenhouse gas (GHG) emissions of 2021 relating to own operations in order to set the baseline for carbon neutrality target. The Bank being the main contributor of GHG emissions of the Group, designed in 2022 the strategy to meet the carbon neutrality target by 2030 and progress towards Net Zero target of 2050. For the Group to become carbon neutral by 2030, Scope 1 and Scope 2 emissions should be reduced by 42% by 2030. The Bank, following the implementation of various energy upgrade action in 2022 and 2023, achieved a c.18% reduction in Scope 1 and Scope 2 GHG emissions in 2023 compared to the baseline of 2021.

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

*Environmental Pillar* (continued)

The Bank plans to invest in energy efficient installations and actions as well as replace fuel intensive machineries and vehicles from 2024 to 2025, which would lead to c.3-4% reduction in Scope 1 and Scope 2 emissions by 2025 compared to 2021. The Group expects that the Scope 2 emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The Bank achieved a reduction of c.8% in Scope 1 - Mobile and Stationary Combustion GHG emissions and c.11% in Scope 2 – Purchased electricity GHG emissions in FY2023 compared to FY2022 due to new solar panels connected to energy network in 2022 and early 2023 as well as buildings abandonment as part of the digitalization journey. The Group is also considering several other actions aiming to a further reduction of c.30% in Scope 1 and Scope 2 GHG emissions by 2030 compared to 2022. The Bank achieved an increase of 65% in renewable energy production, from 173,583 Kwh to 285,907 Kwh, in FY2023 compared to FY2022.

The Bank is gradually integrating climate-related and environmental (C&E) risks into its Business Strategy. The Bank was the first bank in Cyprus to join the Partnership for Carbon Accounting Financials (PCAF) in October 2022, and has estimated and published the Financed Scope 3 GHG emissions associated with its lending portfolio using the PCAF standards, methodology and proxies. Following the estimation of Financed Scope 3 GHG emissions of loan portfolio, the Bank established a decarbonization target on Mortgage loan portfolio. The decarbonization target on Mortgage portfolio was established by applying the International Energy Agency's Below 2 Degree Scenario. For the Bank's Mortgage portfolio to be aligned with the climate scenario and effectively being associated with lower transition risks, the baseline as at 31 December 2022 of 53.5 $kgCO_2e/m^2$ should be reduced by 43% by 31 December 2030. The carbon intensity of the Bank's Mortgage portfolio as at 31 December 2023 was estimated at 50.73 $kgCO_2e/m^2$ achieving a c.5% reduction compared to baseline, due to increased installation of solar panels in residential properties in 2023. A Green Housing product was launched at the end of 2023 to support the Bank to meet the decarbonization target on Mortgage and effectively limit the level of climate transition risk that is exposed. In addition, the Bank has set lending and investment limits on specific carbon intensive sectors which are widely considered to be associated with high climate transition risk. Further, having introduced and implementing a Business Environment Scan process, the Bank developed green/transition new lending targets in certain sectors to support its customer's transition to a low carbon economy and effectively manage climate transition risks.

During 2023, the Bank has made considerable progress in integrating climate-related and environmental risks into its risk management approach and risk culture. The Bank revised and enhanced the Materiality assessment process on C&E risks. The Bank has carried out a comprehensive identification and assessment of C&E risks as drivers of existing financial and non-financial risks considering its business profile and loan portfolio composition. As part of this process, the Bank has identified the risk drivers, both physical and transition, which could potentially have an impact on its risk profile and operations and has assessed the severity of each risk driver for all the existing categories of risks. The Bank has implemented an ESG Due Diligence process designed to enhance data collection, score customers on their performance against various aspects around C&E risks and provide guidance on remediation actions. This process involves the utilization of structured ESG questionnaires applied at the individual company level for customers of the Corporate Division to derive an ESG score. The Bank established a structure and detailed Business Environment Scan process to monitor the impact of C&E risks on its business environment in the short, medium and long-term. The results of the preliminary (quarterly) and final (annually) impact assessment have been incorporated in the Materiality assessment of C&E risks as well as informed the Bank's Business Strategy.

The gross amount of environmentally friendly loans as at 31 December 2023 was €24.5 mn compared to €20.9 mn as at 31 December 2022.

During 2023, in order to enhance the awareness and skillset on ESG matters, the Group performed relevant trainings to the Board of Directors and Senior Management as well as to members of control functions and other members of staff.

*Social Pillar*

At the centre of the Group's leading social role lie its investments in the Bank of Cyprus Oncology Centre (with an overall investment of c.€70 mn since 1998, whilst 60% of diagnosed cancer cases in Cyprus are being treated at the Centre), the immediate and efficient response of Bank of Cyprus' SupportCY network consisting of companies and organisations, to various needs of the society and in cases of crises and emergencies, through the activation of programs, specialized equipment and a highly trained Volunteers Corps, the contribution of the Bank of Cyprus Cultural Foundation in promoting the cultural heritage of the island, and the work of IDEA Innovation Centre. During 2023, SupportCY among other initiatives responded to more than 30 fire incidents in Cyprus and Greece, the deadly floods in Greece and sent support to the earthquake victims in Syria. The Cultural Foundation undertook a number of innovative projects such as 'AISTHISEIS' - Multi sensory museum experience for groups with disabilities, educational programs for schools approved by the Ministry of education, sport and youth, aspiring to bring youth closer to art, literature, museums and culture of Cyprus as well as exhibitions, events and activities developed to encourage and promote the island's history. The ReInHerit program facilitating innovation and research cooperation between European museums and heritage continued also into 2023, with 35,154 people participating in events at the Cultural Foundation between January to December 2023.

## D. Business Overview (continued)

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

*Social Pillar* (continued)

The IDEA Innovation Centre, invested c.€4 mn in start-up business creation since its incorporation, supported creation of 89 new companies to date, provided support to 210+ entrepreneurs through its Startup program since incorporation, and provided education to 7,000 entrepreneurs. Staff continued to engage in voluntary initiatives to support charities, foundations, people in need and initiatives to protect the environment.

The Group has continued to upgrade its staff's skillset by providing training and development opportunities to all staff and capitalising on modern delivery methods. In 2023, the Bank's employees attended 72,888 hours of trainings. In addition, in 2023 the Group launched the BoC Academy to offer up-skilling short courses for employees, with 20 members of staff enrolling on the Academy's programs. In addition, 4 full MBA scholarships were offered to selected members of staff. Moreover, the Group continued its emphasis on staff wellness during 2023 by offering webinars, team building activities and family events with sole purpose to enhance mental, physical, financial and social health, attended by c.2,000 employees through its Well at Work program. One of the highlights of 2023, was the successful launch of the 1st BOC Intrapreneurship Competition "Think Tank". The vision was to empower creativity, increase engagement, nurture a Culture of Innovation, and identify our talents. More than 70 ideas were submitted with 9 Think Tank finalists presenting their ideas to the committee in a final pitching event. The 3 winning ideas were related with the areas of ESG, Digital Transformation and New product development.

*Governance Pillar*

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

The Board composition of the Company and the Bank is diverse, with 45% of the Board members being female as at 31 December 2023. The Board displays a strong skillset stemming from broad international experience. Moreover, the Group's aspiration to achieve a representation of at least 30% women in Group's management bodies (Defined as the EXCO and the Extended EXCO) by 2030, has been reached earlier with 33% representation of women, as at 31 December 2023, in Group's management bodies, following the appointment of two female General Managers in Eurolife and General Insurance of Cyprus. As at 31 December 2023, there is a 40% representation of women at key positions below the Extended EXCO level (defined as positions between Assistant Manager and Manager).

## E. Strategy and Outlook

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

The strategic pillars of the Group remain intact:

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

In 2023 there was a fast and steep increase in interest rates and in conjunction with the Group's highly liquid balance sheet, resulted in a significant increase in the net interest income of the Group. During 2023 the Group's net interest income has more than doubled compared to previous year, facilitating strong profitability. Overall, the Group delivered a ROTE of 24.8% for the year ended 31 December 2023, exceeding significantly its 2023 targets that were set in June 2023 during the Investor Update Event.

In line with the average market forward rates for January 2024, the ECB deposit facility rate is expected to average to 3.4% in 2024 (compared to 3.3% in 2023), with recent market expectation indicating great volatility in the path of rate cuts. Nevertheless, ECB deposit facility rate is expected to normalise by 2025, with ECB deposit facility rate expected to reduce to 2.7% by 4Q2024 and to 2.0% by 4Q2025. Euribor rates have already started to move in expectation of these moves, with 6-month Euribor expected to average to 3.2% in 2024 (compared to 3.7% in 2023). As a result, the Group's net interest income is expected to exceed €670 mn (compared to over €625 mn previously guided in June 2023) with a quarterly declining trend. The main drivers for this guidance are:

- Time and notice deposit pass-through to increase to an average of 40% in 2024 from 18% in 4Q2023. The interest rate cuts are expected to pass gradually to new deposits whilst slow repricing of the back book is expected in 2025;
- Gradual change in deposit mix towards time and notice deposits from 32% as at 31 December 2023 to c.45% by 31 December 2024;
- Low single-digit loan growth whilst loans are expected to reprice to lower Euribor rates (in anticipation of ECB deposit facility rate cuts);
- Fixed income portfolio is expected to continue to grow, subject to market conditions, so that it represents c.16% of total assets by end-2024, benefitting also from rollover to higher rates and;
- Higher wholesale funding costs, reflecting the full year impact of the 2023 senior preferred issuance and any further planned issuance in order to meet the 2024 MREL requirement.

Additionally, as the Group's majority of interest earning assets are floating, the Group is undertaking solutions in order to reduce its net interest income sensitivity, converting some of its assets from floating rate to fixed. During 2023 these actions included: investing in fixed rate bonds, initiating the use of reverse repos, offering fixed rate loans and engaging into receive fixed interest rate swaps on the subordinated debt and debt securities. Simultaneously, about one fifth of the Group's loan portfolio is linked with Bank's base rate which provides a natural hedge against the cost of deposits. Overall, these structural hedging actions have led to a reduction in the net interest income sensitivity (to a parallel shift in interest rates by 100 bps) by €16 mn in 2023 compared to prior year. These actions are expected to continue in 2024 so that the structural hedging increases by around €4-5 bn by end of 2024, subject to market conditions, via partial hedge of non-rate sensitive deposits through receive fixed rate swaps, further investment in fixed rate bonds, additional reverse repos and continuing offering fixed rate loans. In this respect, it is expected that NII sensitivity by end-2024 will decrease further by c.€30-40 mn.

Separately, the Group continues to focus on improving revenues through multiple less capital-intensive initiatives, with a focus on net fee and commission income, insurance and non-banking activities, enhancing the Group's diversified business model further. Non-interest income is an important contributor to the Group's profitability and historically covered on average around 80% of its total operating expenses and this is expected to continue covering around 70-80% of the Group's total operating expenses for 2024-2025, supported by a growing net fee and commission income in line with economic growth.

Maintaining cost discipline management remains an ongoing focus for the Group. The cost to income ratio excluding special levy on deposits or other levies/contributions is reiterated at c.40% for 2024, reflecting mainly reduced income due to the lower interest rates.

In terms of asset quality, the NPE ratio target by end-2024 is updated and is currently expected to stand at c.3% whilst the NPE ratio target of below 3% by end-2025 is reaffirmed. The cost of risk for 2024-2025 is expected to trend towards normalised levels of 40-50 bps.

## E. Strategy and Outlook (continued)

Since 2019, the Real Estate Management Unit (REMU) stock has been consistently reducing, with properties sold exceeding the book value of properties acquired, while inflows remain substantially reduced following balance sheet derisking. Going forward, REMU sales are expected to continue, with expected inflows to remain at limited levels. Therefore, the target of REMU portfolio to reduce to c.€0.5 bn by end-2025 is reiterated.

Overall, the Group continues to expect that it can deliver a ROTE of over 17% on 15% CET1 ratio (excluding amounts reserved for distribution) for 2024 corresponding to a CET1 generation of between 200-250 bps pre-distributions. Additionally, the ROTE target for 2025 of over 16% on 15% CET1 ratio (excluding amounts reserved for distribution) is reiterated, reflecting lower interest rates (average ECB deposit facility rate at 2.2% for 2025).

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

A summary of the targets are shown below:

| **Key metrics** | **FY2024** (June 2023) | **FY2025** (June 2023) | **FY2024 (February 2024)** |
|---|---|---|---|
| Net interest income | >€625 mn | Lower than 2024 | >€670 mn |
| Average ECB Deposit facility rate | 3.1% | 2.5% | 3.4% |
| Cost to income ratio[1] | c.40s | Mid 40s | c.40s |
| Return on tangible equity on 15% CET1 ratio | >17% | >16% | >17%[5] |
| NPE ratio | <4% | <3% | c.3% |
| Cost of risk | To normalise towards 40-50 bps over the medium-term | | Trending towards normalised levels of 40-50 bps |
| Capital | 200-250 bps organic capital generation p.a. pre distributions[2]<br>CET1 ratio of c.19% by end-2025 | | 200-250 bps CET1 generation pre-distributions[3] |
| Dividend | Building prudently and progressively to 30-50% payout ratio[4] | | |

1. Excluding special levy on deposits and other levies/contributions
2. Based on profit after tax (pre distributions)
3. Yoy Increase in CET1 ratio pre-distributions
4. Payout ratio calculated on adjusted recurring profitability which refers to profit after tax before non-recurring items (attributable to the owners of the Company) taking into consideration the distributions from other equity instruments such as AT1 coupon. Any recommendation for a dividend is subject to regulatory approval.
5. Excluding amounts reserved for distribution

## F. Definitions and Explanations

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|---|---|
| Adjusted recurring profitability | The Group's profit after tax before non-recurring items (attributable to the owners of the Company) taking into account distributions under other equity instruments such as the annual AT1 coupon. |
| Advisory and other transformation costs | Comprise mainly of fees of external advisors in relation to: (i) the transformation program and other strategic projects of the Group and (ii) customer loan restructuring activities, where applicable. |
| 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 where applicable), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers (including residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale where applicable), (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 per share (attributable to the owners of the Company) | Basic earnings after tax per share (attributable to the owners of the Company) is the Profit/(loss) after tax (attributable to the owners of the Company) divided by the weighted average number of shares in issue during the period, excluding treasury shares. |
| Carbon neutral | The reduction and balancing (through a combination of offsetting investments or emission credits) of greenhouse gas emissions **from own operations**. |
| CET1 capital ratio (transitional basis) | CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date. |
| CET1 Fully loaded (FL) | The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date. |
| 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 14 February 2024. |
| 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. |
| Diluted earnings per share | Diluted earnings per share is the Profit/(loss) after tax (attributable to the owners of the Company) divided by the weighted average number of ordinary shares in issue adjusted for the ordinary shares that may arise in respect of share awards granted to executive directors and senior management of the Group under the Long-Term Incentive Plans (LTIP) |
| ECB | European Central Bank |

## F. Definitions and Explanations (continued)

| | |
|---|---|
| Green Asset ratio | The proportion of the share of a credit institution's assets financing and invested in EU Taxonomy-aligned economic activities as a share of total covered assets. |
| Green Mortgage ratio | The proportion of the share of a credit institution's assets financing EU Taxonomy-aligned mortgages (acquisition, construction or renovation of buildings) as a share of total mortgages assets. |
| Gross loans | Gross loans comprise: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale where applicable) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment.<br><br>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 €69 mn as at 31 December 2023 (compared to €66 mn as at 30 September 2023 and €86 mn as at 31 December 2022).<br><br>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 €138 mn as at 31 December 2023 (compared to €203 mn as at 30 September 2023 and €211 mn as at 31 December 2022). |
| Group | The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or the "Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries. |
| Legacy exposures | Legacy exposures are exposures relating to (i) Restructuring and Recoveries Division (RRD), (ii) Real Estate Management Unit (REMU), and (iii) non-core overseas exposures. |
| Leverage ratio | The leverage ratio is the ratio of tangible total equity to total assets as presented on the balance sheet. Tangible total equity comprises of equity attributable to the owners of the Company and Other equity instruments minus intangible assets. |
| Leverage Ratio Exposure (LRE) | Leverage Ratio Exposure (LRE) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended. |
| 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 relating to loans and advances to customers 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 of Gross loans (as defined), 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 42.2% as at 31 December 2023 (compared to 42.3% as at 30 September 2023 and 40.9% as at 31 December 2022). The Bank's deposit market share in Cyprus reached 37.7% as at 31 December 2023 (compared to 37.7% as at 30 September 2023 and to 37.2% as at 31 December 2022). |
| MSCI ESG Rating | The use by the Company and 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 Company or 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. |

## F. Definitions and Explanations (continued)

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|---|---|
| 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 performing loan book | Net performing loan book is the total net loans and advances to customers (as defined) excluding net loans included in the legacy exposures (as defined). |
| 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, enforced in June 2021, has been set at 100% as per the CRR II. |
| Net zero emissions | The reduction of greenhouse gas emissions to net zero through a combination of reduction activities and offsetting investments |
| New lending | New lending includes the disbursed amounts of the new and existing non-revolving facilities (excluding forborne or re-negotiated accounts) as well as the average year-to-date change (if positive) of the current accounts and overdraft facilities between the balance at the beginning of the period and the end of the period. Recoveries are excluded from this calculation since their overdraft movement relates mostly to accrued interest and not to new lending. |
| Non-interest income | Non-interest income comprises Net fee and commission income, Net foreign exchange gains/(losses) and net gains/(losses) on financial instruments and (excluding net gains on loans and advances to customers at FVPL), Net insurance result, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of 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:<br>(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.<br>(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.<br>(iii) Material exposures as set by the CBC, which are more than 90 days past due.<br>(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.<br>(v) Performing forborne exposures previously classified as NPEs that present more than 30 days past due within the probation period.<br><br>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).<br><br>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.<br><br>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. |

## F. Definitions and Explanations (continued)

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| | Material arrears/excesses are defined as follows: (a) Retail exposures: Total arrears/excess amount greater than €100, (b) 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%. |
| | The NPEs are reported before the deduction of allowance for expected loan credit losses (as defined). |
| Non-recurring items | Non-recurring items as presented in the 'Unaudited Consolidated Income Statement–Underlying basis' relate to 'Advisory and other transformation costs - organic'. 2022 Non-recurring items relate to: (i) Advisory and Other transformation costs – organic (ii) Provisions/net loss relating to NPE sales, (iii) Restructuring and other costs relating to NPE sales, and (iv) Restructuring costs – Voluntary Staff Exit Plan (VEP). |
| 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). |
| Operating profit | Operating profit comprises profit before loan credit losses (as defined), impairments of other financial and non-financial assets, Provisions for pending litigations, claims regulatory and other matters (net of reversals), tax, profit attributable to non-controlling interests and non-recurring items (as defined). |
| Operating profit return on average assets | Operating profit return on average assets is calculated as the annualised 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 after tax and before non-recurring items (attributable to the owners of the Company) | This refers to the profit 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 transformation costs – organic'). |
| Project Helix 3 | Project Helix 3 refers to the agreement the Group reached in November 2021 for the sale of a portfolio of NPEs with gross book value of €551 mn, as well as real estate properties with book value of c.€88 mn as at 30 September 2022. Project Helix 3 was completed in November 2022. |

## F. Definitions and Explanations (continued)

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| Quarterly average interest earning assets | This relates to the average of 'interest earning assets' as at the beginning and end of the relevant quarter. Interest earning assets include: cash and balances with central banks (including cash and balances with central banks classified as non-current assets held for sale), plus reverse purchase agreements (reverse repos) 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, mutual funds and other non interest bearing investments). |
| Qoq | Quarter on quarter change |
| Return on Tangible equity (ROTE) | Return on Tangible Equity (ROTE) is calculated as Profit/(loss) after tax (attributable to the owners of the Company) (as defined) (annualised - (based on year - to - date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end. |
| Shareholders' equity | Shareholders' equity comprise total equity adjusted for non-controlling interest and other equity instruments. |
| 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, where applicable. |
| Tangible book value per share | Calculated as the total equity attributable to the owners of the Company, (i.e. not including other equity instruments, such as AT1) less intangible assets at each quarter end divided by the number of ordinary shares of the Group. |
| Time deposit pass-through | Calculated as a percentage of the cost (interest expense) of Time and Notice deposits over the average 6-month Euribor rate of the period. |
| Total Capital ratio | Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date. |
| Total expenses | Total expenses comprise staff costs, other operating expenses and the special levy on deposits and other levies/contributions. It does not include (i) 'advisory and other transformation costs-organic', (ii) restructuring and other costs relating to NPE sales, or (iii) restructuring costs relating to the Voluntary Staff Exit Plan, where applicable. (i) 'Advisory and other transformation costs-organic' amounted to nil for 4Q2023 (compared to nil for 3Q2023, €1 mn for 2Q2023 and for 1Q2023), (ii) Restructuring costs relating to NPE sales for 4Q2023 amounted to nil (compared to nil for 3Q2023, a gain of €0.2 mn for 2Q2023 and a loss of €0.2 mn for 1Q2023), and (iii) Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) for 4Q2023 was nil (compared to nil for 3Q2023, 2Q2023 and 1Q2023). |
| 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 comprise loan credit losses (as defined), plus impairments of other financial and non-financial assets, plus provisions for pending litigations, claims regulatory and other matters net of reversals). |
| Underlying basis | This refers to the statutory basis after being adjusted for reclassification of 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 recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance. |
| Yoy | Year on year change |

## Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or "the Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" or "BOC PCL", and together with the Bank's subsidiaries, the "Group", for the year ended 31 December 2023.

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 preliminary Group financial results for the year ended 31 December 2023.

The financial information in this announcement is not audited and 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 2023 are expected to be delivered to the Registrar of Companies of Ireland within 56 days of 30 September 2024 (as at the date of this report, such statutory financial statements have not been reported on by independent auditors of BOC Holdings). The Board of Directors approved this financial information on 16 February 2024. BOC Holding's most recent statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the year ended 31 December 2022, upon which the auditors have given an unqualified audit report were published on 31 March 2023 and have been annexed to the annual return and delivered to the Registrar of Companies of Ireland.

**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 year ended 31 December 2023, 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 pages 7-8. The statutory results are adjusted for certain items (as described on section B.1) to allow a comparison of the Group's underlying financial position and performance.

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

This announcement and the presentation for the Group Financial Results for the year ended 31 December 2023 have been posted on the Group's website [www.bankofcyprus.com](http://www.bankofcyprus.com) (Group/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, together with explanations.

The Group Financial Results for the year ended 31 December 2023 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 and geopolitical developments. This creates significantly greater uncertainty about forward-looking statements. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward-looking statements. 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. Changes in our reporting frameworks and accounting standards, including the recently announced reporting changes and the implementation of IFRS 17 'Insurance Contracts', which may have a material impact on the way we prepare our financial statements and (with respect to IFRS 17) may negatively affect the profitability of Group's insurance business.

## Contacts

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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. At 31 December 2023, the Bank of Cyprus Group operated through a total of 64 branches in Cyprus, of which 4 operated as cash offices. The Bank of Cyprus Group employed 2,830 staff worldwide. At 31 December 2023, the Group's Total Assets amounted to €26.6 bn and Total Equity was €2.5 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.