Bank of Cyprus Holdings

Announcement

Group Financial Results for the nine months ended 30 September 2020 and Medium-Term Strategic Targets

Nicosia, 27 November 2020

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014.

Key Highlights for the nine months ended 30 September 2020

COVID-19 Developments

- Cypriot economy more resilient in 3Q2020 than anticipated earlier in the year
- We continue to support the recovery of the Cypriot economy
- New lending of €288 mn for 3Q2020 recovering post lockdown, driven by retail housing, reaching c.€1 bn for 9M2020
- Careful on-going monitoring of credit quality of loans under moratorium

Positive Performance in 3Q2020

- Total income of €137 mn; operating profit of €44 mn
- Cost of risk of 97 bps
- Profit after tax of €4 mn

Operating Efficiency

- Total operating expenses (excluding special levy and contributions to SRF and DGF) at €84 mn for 3Q2020, up by 4% qoq as more normal business operations have resumed post lockdown, and €249 mn for 9M2020 down by 13% yoy
- Cost to income ratio (excluding special levy and contributions to SRF and DGF) at 62% for 3Q2020 and 59% for 9M2020

Good Capital, Strong Liquidity

- CET1 ratio of 14.7% and Total Capital ratio of 18.2% (both pro forma for Helix 2 and on a transitional basis)
- Deposits at €16.4 bn, broadly flat qoq
- Significant surplus liquidity of €4.1 bn (LCR at 256%)

Balance Sheet Repair Continues

- Organic NPE reduction of €230 mn for 3Q2020, with pace returning to pre-lockdown levels
- €0.9 bn NPE sale (Helix 2) agreed in August 2020
- NPEs reduced to €2.4 bn (€1.0 bn net), pro forma for Helix 2
- Gross NPE ratio reduced to 21% (10% net) and coverage maintained at 59%, all pro forma for Helix 2

Strategy and Outlook

- Clear path to reduce NPE ratio to single digit by end of 2022 and to c.5% in the medium term
- Enhance revenues in a more capital efficient way, capitalising on strong market position
- Improve operating efficiency through leaner operations, digitisation and automation
- Initiate MREL issuance and refinance Tier 2, subject to market conditions
- Position the Bank on the path for sustainable profitability delivering shareholders returns; target of ROTE of c.7% in the medium term

Group Chief Executive Statement

"Signs of economic recovery to pre-pandemic levels marked the third quarter of the year, with the Cypriot economy showing more resilience than initially anticipated, proving its open, small and flexible characteristics. However, as the number of new COVID-19 cases has increased in recent weeks, local restrictions have been re-imposed to contain the spread, which is likely to lead to some loss of momentum in economic recovery in the fourth quarter. The latest news for an effective vaccine is encouraging, which in time should support a return to more normal conditions.

Our strategic priorities of strengthening our balance sheet and improving our asset quality and efficiency, while supporting our customers, colleagues and community through COVID-19 remain unchanged.

During the third quarter of the year we continued to support the Cypriot economy and extended a further €288 mn in new loans, up by over 20% compared to the previous quarter, as new demand increased post lockdown, driven by retail housing, supported by the Government's interest rate subsidy scheme. Overall, we have granted c.€1 bn new loans in the first nine months of the year.

During the third quarter of the year, we generated total income of €137 mn and a positive operating result of €44 mn. Cost of risk was maintained at below 100 bps. Q3 was profitable and the profit after tax for the quarter was €4 mn. The overall result for the nine months was a loss after tax of €122 mn, when including the loss on Project Helix 2 and loan credit losses for potential future NPE sales, both recorded in the previous quarter.

In the nine months of the year we reduced our total operating expenses by €40 mn or 13% on a yearly basis, reflecting our on-going efforts to contain costs. The quarterly increase of 4% is reflective of the lower cost base in the second quarter as a result of the restrictive measures for COVID-19.

The Bank's capital position remains good and comfortably in excess of our regulatory requirements. As at 30 September 2020, our capital ratios (on a transitional basis) were 18.2% for the Total Capital ratio and 14.7% for CET1 ratio, both pro forma for Helix 2. Our liquidity position also remains strong as we continue to operate with a significant surplus of €4.1 bn (LCR at 256%). Deposits on our balance sheet remained broadly flat in the quarter at €16.4 bn.

During the third quarter of the year we maintained our focus on dealing with legacy issues. The pace of organic NPE reduction returned to pre-lockdown levels, as we reduced NPEs further by €230 mn, bringing the total organic reduction in the first nine months of the year to over €500 mn. Together with the sales of loans achieved earlier this year (Helix 2 and Velocity 2), we have substantially reduced NPEs by €1.5 bn in the first nine months of 2020. Overall, since the peak in 2014, we have now reduced the stock of delinquent loans by €12.6 bn or 84% to €2.4 bn (on a pro forma basis) and our NPE ratio from 63% to 21% (on a pro forma basis). NPE coverage was maintained at 59%, reducing the residual risk on our balance sheet to €1 bn.

We remain committed to completing the de-risking of the balance sheet and we will continue to assess the potential to accelerate NPE reduction through additional sales. At the same time, we continue to monitor the credit quality of loans under moratorium.

Although there remains uncertainty in the broader operating environment as a result of the pandemic, our vision for the future of the Bank is clear, together with our confidence in delivering our strategic objectives.

Bank of Cyprus has been through a period of considerable change and we are now laying the foundations for delivering greater shareholder value. Our near term priorities include the completion of our balance sheet de-risking and ensuring our cost base remains appropriate whilst further investing in our digital capabilities; and our medium term priorities include capitalising on our strong market position, enhancing revenues, driving down costs and navigating a clear path to sustainable profitability."

Panicos Nicolaou

A. Group Financial Results – Underlying Basis

Unaudited Consolidated Condensed Interim Income Statement

€ mn	9M2020	9M2019[1]	3Q2020	2Q2020	qoq ±%	yoy ±%
Net interest income	250	260	82	83	-1%	-4%
Net fee and commission income	106	111	35	33	6%	-4%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	14	34	2	6	-76%	-59%
Insurance income net of claims and commissions	42	42	13	18	-28%	0%
Net gains/ (losses) from revaluation and disposal of investment properties and on disposal of stock of properties	2	26	2	(1)	-	-90%
Other income	11	22	3	4	-13%	-48%
Total income	**425**	**495**	**137**	**143**	-5%	-14%
Staff costs	(145)	(167)	(49)	(47)	5%	-12%
Other operating expenses	(104)	(122)	(35)	(34)	4%	-15%
Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)	(24)	(18)	(9)	(6)	42%	28%
Total expenses	**(273)**	**(307)**	**(93)**	**(87)**	7%	-11%
Operating profit	**152**	**188**	**44**	**56**	-23%	-19%
Loan credit losses	(118)	(117)	(31)	(23)	28%	1%
Impairments of other financial and non-financial assets	(36)	(9)	(7)	(25)	-73%	-
Provisions for litigation, claims, regulatory and other matters	(4)	(3)	0	(2)	-83%	33%
Total loan credit losses, impairments and provisions	**(158)**	**(129)**	**(38)**	**(50)**	-26%	22%
(Loss)/profit before tax and non-recurring items	**(6)**	**59**	6	**6**	7%	-
Tax	(7)	(1)	(2)	(3)	-18%	-
Loss/(profit) attributable to non-controlling interests	4	(2)	0	4	-96%	-
(Loss)/profit after tax and before non-recurring items (attributable to the owners of the Company)	**(9)**	**56**	4	**7**	-38%	-116%
Advisory and other restructuring costs – organic	(9)	(14)	(3)	(3)	1%	-36%
(Loss)/profit after tax – organic (attributable to the owners of the Company)	**(18)**	**42**	**1**	**4**	-71%	-
Provisions/net loss relating to NPE sales, including restructuring expenses[2]	(104)	(6)	3	(104)	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	-	(21)	-	-	-	-
Reversal of impairment of DTA and impairment of other tax receivables	-	101	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(122)**	**116**	**4**	**(100)**	-	-

A. Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Condensed Interim Income Statement – Key Performance Ratios

Key Performance Ratios[3]	9M2020	9M2019[1]	3Q2020	2Q2020	qoq +%	yoy +%
Net Interest Margin (annualised)	1.87%	1.92%	1.79%	1.88%	-9 bps	-5 bps
Cost to income ratio	64%	62%	68%	61%	+7 p.p.	+2 p.p.
Cost to income ratio excluding special levy and contributions to SRF and DGF	59%	58%	62%	57%	+5 p.p.	+1 p.p.
Operating profit return on average assets (annualised)	1.0%	1.2%	0.8%	1.1%	-30 bps	-20 bps
Basic (losses)/earnings per share attributable to the owners of the Company - organic (€ cent)	(4.07)	9.23	0.24	0.82	-0.58	-13.30
Basic (losses)/earnings per share attributable to the owners of the Company (€ cent)	(27.25)	25.92	0.91	(22.35)	+23.26	-53.17

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. 'Provisions/net loss relating to NPE sales including restructuring expenses' refer to the net loss on transactions completed during each period, net loan credit losses on transactions under consideration and for potential further sales at each reporting date, as well as the restructuring costs relating to these trades. For further details please refer to Section A.2.4. 3. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale".
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Commentary on Underlying Basis

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

Reconciliations between statutory basis and underlying basis are included in section F.1 'Reconciliation of income statement between statutory basis and underlying basis' and in Section G 'Definitions and Explanations', to allow for the comparability of the underlying basis to statutory information.

With respect to the 'Balance Sheet Analysis', please note the following in relation to the disclosure of pro forma figures and ratios with respect to Project Helix 2 (as explained below). All relevant figures are based on 30 September 2020 financial results, unless otherwise stated. Numbers on a pro forma basis are based on the 30 September 2020 underlying basis figures and are adjusted for Project Helix 2 and assume completion of the transaction, which remains subject to customary regulatory and other approvals. Where numbers are provided on a pro forma basis this is stated.

Project Helix 2 refers to the agreement the Group reached in August 2020 with funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), for the sale of a portfolio of loans with gross book value of €0.9 bn. Further details on the transaction are provided in Section A.1.5 'Loan Portfolio quality'.

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

Reclassifications effected to comparative information were made so that 'advisory and other restructuring costs' for 9M2019 of c.€6.5 mn (relating to the Project Helix 2 loan portfolio, classified as held for sale as at 30 September 2020), were reclassified as non-recurring items within 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis.

A. Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Condensed Interim Balance Sheet

€ mn	30.09.2020	31.12.2019	±%
Cash and balances with central banks	5,507	5,060	9%
Loans and advances to banks	529	321	65%
Debt securities, treasury bills and equity investments	2,026	1,906	6%
Net loans and advances to customers	10,047	10,722	-6%
Stock of property	1,358	1,378	-1%
Investment properties	130	136	-4%
Other assets	1,558	1,574	-1%
Non-current assets and disposal groups held for sale	361	26	-
Total assets	**21,516**	**21,123**	**2%**
Deposits by banks	405	533	-24%
Funding from central banks	997	-	-
Repurchase agreements	124	168	-26%
Customer deposits	16,384	16,692	-2%
Subordinated loan stock	267	272	-2%
Other liabilities	1,208	1,169	3%
Total liabilities	**19,385**	**18,834**	**3%**
Shareholders' equity	**1,886**	**2,040**	**-8%**
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	**2,106**	**2,260**	**-7%**
Non-controlling interests	25	29	-14%
Total equity	**2,131**	**2,289**	**-7%**
Total liabilities and equity	**21,516**	**21,123**	**2%**

Key Balance Sheet figures and ratios	30.09.2020 (proforma)[1]	30.09.2020 (as reported)[2]	31.12.2019	±[2]
Gross loans (€ mn)	**11,427**	**12,309**	12,822	-4%
Allowance for expected loan credit losses (€ mn)	**1,391**	**1,933**	2,096	-8%
Customer deposits (€ mn)	**16,384**	**16,384**	16,692	-2%
Loans to deposits ratio (net)	**61%**	**63%**	64%	-1 p.p.
NPE ratio	**21%**	**26%**	30%	-4 p.p.
NPE coverage ratio	**59%**	**60%**	54%	+6 p.p.
Leverage ratio	**9.1%**	**9.1%**	10.0%	-0.9 p.p.
Capital ratios and risk weighted assets	**30.09.2020** (proforma)[1]	**30.09.2020** (as reported)[2]	**31.12.2019**	±[2]
Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)[3]	**14.7%**	**14.6%**	14.8%	-20 bps
Total capital ratio	**18.2%**	**18.1%**	18.0%	+10 bps
Risk weighted assets (€ mn)	**11,780**	**11,888**	12,890	-8 %

1. Pro forma for the sale of NPEs of €0.9 bn (Project Helix 2); calculations on a pro forma basis assume completion of Project Helix 2, which remains subject to customary regulatory and other approvals. 2. As reported: Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". 3.The CET1 fully loaded ratio as at 30 September 2020 amounts to 12.8% and 12.9% pro forma for Helix 2 (compared to 12.6% and 12.7% pro forma for Helix 2 as at 30 June 2020 and 13.1% as at 31 December 2019). p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis

A.1.1 Capital Base

Total equity excluding non-controlling interests totalled €2,106 mn at 30 September 2020, compared to €2,095 mn at 30 June 2020 and €2,260 mn at 31 December 2019. Shareholders' equity totalled €1,886 mn at 30 September 2020, compared to €1,875 mn at 30 June 2020 and €2,040 mn at 31 December 2019.

The **Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 14.6% at 30 September 2020 and 14.7% pro forma for the Project Helix 2 sale agreement signed in 3Q2020 (referred to as "pro forma for Helix 2"), compared to 14.3% at 30 June (and 14.4% pro forma for Helix 2) and to 14.8% at 31 December 2019. During 3Q2020, the CET1 ratio was further positively impacted by the amendments to the capital regulations in relation to the temporary treatment of unrealised loss on certain financial instruments and IFRS 9, introduced in June 2020 in response to COVID-19 by c.10 bps.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. The impact on the capital position for the year 2018 was 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019 and to 30% (cumulative) for the year 2020. In **June 2020, Regulation (EU) 2020/873,** regarding certain adjustments in response to the COVID-19 pandemic, came into force, extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1, such as allowing to temporarily add back unrealised gains or losses on certain financial instruments measured at fair value through other comprehensive income. Further details are set out further below under 'Implications on capital from the Outbreak of COVID-19'.

The **CET1 ratio on a fully loaded basis** amounted to 12.8% as at 30 September 2020 and 12.9% pro forma for Helix 2, compared to 12.6% as at 30 June 2020 and 12.7% pro forma for Helix 2, and to 13.1% as at 31 December 2019. On a transitional basis and on a fully phased-in basis, after the transition period is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The **Total Capital ratio** stood at 18.1% as at 30 September 2020 (and 18.2% pro forma for Helix 2), compared to 17.8% as at 30 June 2020 (and 17.9% pro forma for Helix 2), and to 18.0% as at 31 December 2019.

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

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

The SREP **Total Capital Requirement** remained unchanged **at 14.5%,** comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% in the form of T2 capital), a 3.0% Pillar II requirement (in the form of CET1), the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. Pillar II add-on capital requirements derive from the context of the SREP, which is a point in time assessment, and are therefore subject to change over time. The final 2019 SREP decision became effective on 1 January 2020.

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

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

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.1 Capital Base (continued)

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

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

Based on the SREP decisions of prior years, the Company and the Bank were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2019 and 2018. Following the 2020 SREP communication, the Company and the Bank are still under equity dividend distribution prohibition as the 2019 SREP decision remains in force. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders, which are eligible as CET1 capital. No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company or the Bank.

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

Share premium reduction

Bank

The Bank, having obtained approval by its shareholders, the ECB and the Court of Cyprus, implemented a capital reduction process in October 2020, which resulted in the reclassification of c.€619 mn of the Bank's share premium balance as distributable reserves. Such reduction of capital will not have any impact on regulatory capital or the total equity position of the Bank or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the Capital Requirements Regulation (EU) No. 575/2013 (CRR), which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Company

The Company (Bank of Cyprus Holdings PLC), following relevant resolution of its shareholders at the May 2020 AGM and subsequent approval by the ECB and the Irish High Court, implemented a capital reduction process in November 2020, which resulted in the reclassification of €700 mn of the Company's share premium balance as distributable reserves. Such capital reduction will not have any impact on regulatory capital or the total equity position of the Company, the Bank or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items recognised in the audited full year financial statements. The distributable reserves and distributable items created pursuant to the capital reduction process are expected to be reflected in the audited financial statements for the financial year ended 31 December 2020.

Project Helix 2

In August 2020, the Group signed an agreement for the sale of a portfolio of loans with gross book value of €0.9 bn, known as Project Helix 2. Loan credit losses in relation to the agreement of c.€68 mn, including transaction costs were recognised during 2Q2020. At completion, currently expected in 1H2021, and including the losses recognised in 2Q2020, the transaction is expected to have a negative impact of c.40 bps on the Group's CET1 ratio. Upon the full payment of the deferred consideration and without taking into consideration any positive impact from the earnout, depending on the performance of the portfolio, the transaction is expected to have an overall positive capital impact of c.10 bps on the Group's CET1 ratio.

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.1 Capital Base (continued)

Further NPE sales in the future

The Group remains committed to assess the potential to accelerate the decrease in NPEs through further NPE sales in the future and in the context of IFRS 9, the Bank recognised additional loan credit losses of €21 mn in 2Q2020 (compared to nil in 3Q2020 and 1Q2020), resulting in a decrease on the Group's CET1 ratio of c.14 bps in 2Q2020. On completion of an NPE trade, the Group's capital ratios would benefit from any associated RWA reduction, subject to regulatory approval.

Legislative amendments for the conversion of DTA to DTC

Legislative amendments allowing for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC) were adopted by the Cyprus Parliament and published in the Official Gazette of the Republic in March 2019. The law amendments cover the utilisation of income tax losses transferred from Laiki Bank to the Bank in March 2013. The introduction of CRD IV in January 2014 and its subsequent phasing-in led to a more capital-intensive treatment of this DTA for the Bank. The law amendments resulted in an improved regulatory capital treatment, under CRR, of the DTA amounting to c.€285 mn or a CET1 uplift of c.190 bps in March 2019.

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, potentially including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already acknowledged, to maintain the conversion of such DTAs into tax credits. In anticipation of such modifications the Group recorded an additional amount of €13 mn in 4Q2019 by way of an estimated additional fee (for the years 2018 and 2019), bringing the total guarantee fee recognised for FY2019 to €19 mn.

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

Project Helix

In June 2019, Project Helix was completed resulting in a positive impact of c.140 bps on both the Group's CET1 and Total Capital ratios, mainly from the release of risk weighted assets. Project Helix had an overall net positive impact on the Group capital ratios of c.60 bps.

Sale of investment in CNP Cyprus Insurance Holdings Ltd

In October 2019, the sale of the Group's investment in its associate CNP Cyprus Insurance Holdings Limited ("CNP") was completed, resulting in a positive impact of c.30 bps on both the Group's CET1 and Total Capital ratios, mainly from the release of risk weighted assets. The shareholding had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and was sold to CNP Assurances S.A. for a cash consideration of €97.5 mn.

Voluntary Staff Exit Plan

In October 2019, the Group completed a voluntary staff exit plan (VEP) at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019, resulting in a negative impact of c.60 bps on both the Group's CET1 and Total Capital ratios.

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.1 Capital Base (continued)

Implications on capital from the Outbreak of COVID-19

The Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. The ECB announced a package of positive measures that should help to support the capital position of the Bank, in order to secure favourable conditions of financing for the economy with the aim to mitigate the effects of the crisis. Specifically, the measures increase the Group's capital base available to absorb potential losses due to the crisis. In addition, the early adoption of CRD V for the composition of the Pillar II Requirement provide flexibility regarding the Group's compliance with the minimum capital requirement of Pillar II.

In the context of the ECB's capital easing measures for COVID-19, the Bank received an amendment to the December 2019 SREP decision effective as of 12 March 2020, reducing the Group's **minimum phased-in CET1 capital ratio to 9.7%**. In addition, the ECB announced that banks are temporarily allowed to operate below the level of Pillar II Guidance (P2G), the capital conservation buffer (CCB) and the countercyclical buffer. The CBC has set the level of the countercyclical buffer for Cyprus at 0% for the years 2020 and 2019. In July 2020, the ECB committed to allow banks to operate below the P2G and the combined buffer requirement until at least end of 2022, without automatically triggering supervisory actions. In addition, in April 2020, the CBC decided to delay the phasing-in of the O-SII buffer. Further details are given above.

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

With respect to the SME discount factor, banks will be required to hold less capital against SMEs as revised capital discount factors come into effect. These changes became effective in June 2020 and added 44 bps to capital as at 30 June 2020.

The amendments to the existing IFRS 9 transitional arrangements relate to the extension of the transitional period for the recalculation of the transitional adjustment on credit losses on Stages 1 and 2 loans (dynamic component). A 100% add back of IFRS 9 provisions is allowed for the years 2020 and 2021 reducing to 75% in 2022, to 50% in 2023 and to 25% in 2024. The calculation at each reporting period is to be made against Stage 1 and Stage 2 provisions as at 1 January 2020, instead of 1 January 2018. The calculation of the static component has not been amended. These amendments became effective in June 2020 and added 11 bps to capital as at 30 September 2020.

In relation to the prudential treatment of intangibles, software assets will no longer need to be deducted in full in CET1 calculations, subject to certain criteria. The relevant technical standards have been issued by the EBA and need to be adopted by the European Commission, expected in 4Q2020.

Finally, institutions may remove from the calculation of their CET1 the amount of unrealised gains and losses accumulated since 31 December 2019 accounted for as 'fair value changes of debt instruments measured at fair value through other comprehensive income' in the balance sheet, corresponding to exposures to central governments, to regional governments or to local authorities and to public sector entities, excluding those financial assets that are credit-impaired, subject to a scaling factor set at 100% from January to December 2020, at 70% from January to December 2021 and at 40% from January to December 2022. The Bank applies the temporary relief as of 3Q2020 and contributed 6 bps to capital as at 30 September 2020.

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.2. Regulations and Directives

A.1.2.1 Revised rules on capital and liquidity (CRR II and CRD V)

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Member states are required to transpose the CRD V into national law. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities, MREL), but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of, among others, changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR).

A.1.2.2 Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

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

In May 2020, the Bank received formal notification from the CBC in its capacity as National Resolution Authority, of the final decision by the Single Resolution Board (SRB), for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank, determined as the preferred resolution point of entry. The MREL requirement was set at 28.36% of risk weighted assets as of 30 June 2019 and must be met by 31 December 2025. This MREL requirement would be equivalent to 18.54% of total liabilities and own funds (TLOF) as at 30 June 2019. The MREL requirement is in line with the Bank's expectations, and largely in line with its funding plans.

This decision is based on the current legislation, is expected to be updated annually and could be subject to subsequent changes by the resolution authorities, especially considering that next year's decision will be under the BRRD II, which among others may affect the quantum of the MREL requirement, the final compliance period and the subordination requirements, and is expected to impose a binding interim target for 1 January 2022.

The MREL ratio of the Bank as at 30 September 2020, calculated according to SRB's eligibility criteria currently in effect and based on the Bank's internal estimate, stood at 18.55% of RWAs.

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.3 Funding and Liquidity

Funding

Funding from Central Banks

At 30 September 2020, the Bank's funding from central banks amounted to €997 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO III) (compared to no funding from central banks as at 31 December 2019). In June 2020, the Bank borrowed €1 bn from the fourth TLTRO III operation, despite its comfortable liquidity position, given the favourable borrowing rate, in combination with the relaxation of collateral terms.

Deposits

Customer deposits totalled €16,384 mn at 30 September 2020 (compared to €16,303 mn at 30 June 2020 and €16,692 mn at 31 December 2019), remaining broadly flat in the third quarter and reduced by 2% since the year end.

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

The net Loans to Deposit ratio (L/D) stood at 63% as at 30 September 2020 (compared to 64% as at 30 June 2020 and 31 December 2019). The L/D ratio had reached a peak of 151% as at 31 March 2014.

Subordinated Loan Stock

At 30 September 2020 the Bank's subordinated loan stock (including accrued interest) amounted to €267 mn (compared to €261 mn at 30 June 2020 and €272 mn at 31 December 2019) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 mn, issued by the Bank in January 2017.

Liquidity

At 30 September 2020 the Group Liquidity Coverage Ratio (LCR) stood at 256% (compared to 257% at 30 June 2020 and 208% at 31 December 2019), in compliance with the minimum regulatory requirement of 100%.

The liquidity surplus in LCR at 30 September 2020 amounted to €4.1 bn (compared to €3.9 bn at 30 June 2020 and €3.2 bn at 31 December 2019). The increase in 9M2020 is driven mainly by the borrowing of €1 bn TLTRO III in June 2020.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will be enforced as a regulatory ratio under CRR II in 2021, with the limit set at 100%. At 30 September 2020, the Group's NSFR, on the basis of Basel III standards, stood at 135% (compared to 134% at 30 June 2020 and 127% at 31 December 2019).

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.3 Funding and Liquidity (continued)

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

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

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

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

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

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.4 Loans

Group gross loans totalled €12,309 mn at 30 September 2020, compared to €12,491 mn at 30 June 2020 and €12,822 mn at 31 December 2019. Gross loans of the Group's Cyprus operations totalled €12,237 mn at 30 September 2020 accounting for 99% of Group gross loans. Pro forma for Helix 2, gross loans are reduced by €882 mn to €11,427 mn as at 30 September 2020.

New loans granted in Cyprus reached €977 mn for 9M2020, compared to €1,602 mn for 9M2019, down by 39% yoy, impacted by the outbreak of COVID-19. New loans granted in Cyprus reached €288 mn for 3Q2020, compared to €238 mn for 2Q2020 (up by 21% qoq) and to €491 mn for 3Q2019 (down by 41% yoy). The qoq increase reflects demand for new loans picking up post lockdown, driven by retail housing loans.

At 30 September 2020, the Group net loans and advances to customers totalled €10,047 mn (compared to €10,104 mn at 30 June 2020 and €10,722 mn at 31 December 2019). In addition, at 30 September 2020 net loans and advances to customers of €349 mn were classified as held for sale in line with IFRS 5 and relate to Project Helix 2 (€340 mn) and Helix Tail (€9 mn), compared to €362 mn as at 30 June 2020 relating to Project Helix 2 (€352 mn) and Helix Tail (€10 mn) and to €26 mn as at 31 December 2019 relating to Helix Tail and Velocity 2.

The Bank is the single largest credit provider in Cyprus with a market share of 41.5% at 30 September 2020, compared to 41.7% at 30 June 2020 and to 41.1% at 31 December 2019.

A.1.5 Loan portfolio quality

Tackling the Group's loan portfolio quality remains a top priority for management. The Group has continued to make steady progress across all asset quality metrics and the loan restructuring activity has continued despite challenges brought upon by COVID-19. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio.

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €230 mn or 7% during 3Q2020, compared to a reduction of €270 mn in 2Q2020 (comprising an organic reduction of NPEs of €137 mn and a reduction through the completion of Project Velocity 2 of €133 mn) despite the COVID-19 lockdown in March 2020, to €3,238 mn at 30 September 2020 (compared to €3,468 mn at 30 June 2020 and €3,880 mn at 31 December 2019). The Group has recorded organic NPE reductions for twenty-two consecutive quarters. Pro forma for Helix 2, NPEs are reduced by a further €864 mn to €2,374 mn on the basis of 30 September 2020 figures.

The NPEs account for 26% of gross loans as at 30 September 2020, compared to 28% as at 30 June 2020 and 30% at 31 December 2019, on the same basis, i.e. including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". Pro forma for Helix 2 the NPE ratio is reduced to 21% on the basis of 30 September 2020 figures.

The NPE coverage ratio improved to 60% at 30 September 2020, compared to 59% at 30 June 2020 and 54% at 31 December 2019, on the same basis, i.e. including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". When taking into account tangible collateral at fair value, NPEs are fully covered. Pro forma for Helix 2 the NPE coverage ratio is reduced to 59% on the basis of 30 September 2020 figures.

	30.09.2020		31.12.2019	
	€ mn	**% gross loans**	€ mn	% gross loans
NPEs as per EBA definition	**3,238**	**26.3%**	3,880	30.3%
Of which, in pipeline to exit:				
-NPEs with forbearance measures, no arrears[1]	**312**	**2.5%**	428	3.3%

1. The analysis is performed on a customer basis.

A.1.5 Loan portfolio quality (continued)

Project Helix 2

In August 2020, the Group signed an agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn related to non-performing exposures) as at 30 June 2020, **known as Project Helix 2**. This portfolio had a contractual balance of €1.46 bn as at the reference date of 30 September 2019 and comprises mainly retail and small-to-medium-sized enterprises, secured by real estate collateral. This portfolio is classified as a disposal group held for sale since 30 June 2020 and it includes other assets (comprising properties and cash already received since the reference date) amounting to c.€34 mn as at 30 June 2020.

The gross consideration amounts to 46% of the gross book value as at 30 June 2020 and 29% of the contractual balance, payable in cash, of which 35% is payable at completion, currently expected in 1H2021, and the remaining 65% is deferred without any conditions attached. The deferred component is payable in three broadly equal instalments over 48 months from completion. The consideration can be increased through an earnout arrangement, depending on the performance of the portfolio.

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

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

Project Helix 2 accelerates the Group's strategy of de-risking its balance sheet, by reducing its stock of NPEs by 27% to €2,374 mn pro forma on the basis of the 30 September 2020 figures, and its NPE ratio by 5 p.p., to 21% pro forma on the basis of the 30 September 2020 figures.

Project Velocity 2

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

Project Helix

In June 2019, the Group announced the completion of Project Helix, that refers to the sale of a portfolio of loans with a gross book value of €2.8 bn (of which €2.7 bn related to non-performing loans) secured by real estate collateral to certain funds affiliated with Apollo Global Management LLC, the agreement of which was announced on 28 August 2018. Cash consideration of c.€1.2 bn was received on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Helix portfolio since the reference date of 31 March 2018. The participation of the Bank in the senior debt in relation to financing the transaction was syndicated down from the initial level of €450 mn to c.€45 mn, representing c.4% of the total acquisition funding. Upon completion, the NPE ratio was reduced by c.11 p.p. to 33% as at 30 June 2019, c.70% lower than its peak in 2014.

Project Velocity 1

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

ESTIA

In July 2018 the Government announced a scheme aimed at addressing NPEs backed by primary residence, known as ESTIA (the 'Scheme'). Approximately one thousand completed applications were received corresponding to retail core NPEs of c.€250 mn. The Scheme is expected to resolve c.€93 mn of these NPEs, to identify non-viable customers for which alternative restructuring solutions are being considered (including by the Government) corresponding to c.€96 mn of these NPEs, and to facilitate the resolution of the remaining customers, mainly by focusing on realising collateral through consensual and non-consensual foreclosures. All figures are as per the latest available data in November 2020.

Additional strategies to accelerate de-risking

The Group remains committed to assess the potential to accelerate the decrease in NPEs through further NPE sales in the future and in the context of IFRS 9, other than the loan credit losses of €68 mn recorded in 2Q2020 for Project Helix 2, the Bank recognised additional loan credit losses of €21 mn in 2Q2020 as a result of potential further NPE sales in the future. In December 2019, additional loan credit losses of €75 mn had been recognised as a result of the anticipated balance sheet de-risking at the time.

As at 30 September 2020, a portfolio of credit facilities related to Project Helix of mainly secured non-performing exposures (known as '**Helix Tail**') with gross book value of €37 mn (compared to €44 mn as at 30 June 2020 and €46 mn as at 31 December 2019), was classified as a disposal group held for sale.

A.1. Balance Sheet Analysis (continued)

A.1.6 Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** on-boarded €74 mn of assets in 9M2020 (down by 53% yoy), via the execution of debt for asset swaps and repossessed properties. The focus for REMU has shifted from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed organic disposals of €48 mn in 9M2020 (compared to €159 mn in 9M2019), resulting in a profit on disposal of €6 mn for 9M2020 (compared to a profit on disposal of €26 mn for 9M2019).

During the nine months ended 30 September 2020, the Group executed sale-purchase agreements (SPAs) for disposals with contract value of €56 mn (320 properties), compared to €195 mn (433 properties) for 9M2019, excluding the sale of Cyreit. In addition, the Group had signed SPAs for disposals of assets with contract value of €54 mn as at 30 September 2020, compared to €53 mn as at 30 June 2020 and €65 mn as at 30 September 2019.

Project Helix 2

Stock of property with a carrying value of €11 mn as at 30 September 2020 and as at 30 June 2020 is classified as non-current assets and disposal groups held for sale as it is included in the Helix 2 portfolio.

Completion of sale of Cyreit

In 2Q2019, the Group completed the sale of its entire holding in the investment shares of the Cyreit Variable Capital Investment Company PLC (Cyreit) (21 properties), recognising a loss of c. €1 mn. The total proceeds from the disposal of Cyreit were €160 mn.

Completion of Project Helix

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

Assets held by REMU

As at 30 September 2020, assets held by REMU had a carrying value of €1,467 mn (comprising properties of €1,358 mn classified as 'Stock of property' and €109 mn as 'Investment properties'), compared to €1,456 mn as at 30 June 2020 (comprising properties of €1,344 mn classified as 'Stock of property' and €112 mn as 'Investment properties') and to €1,490 mn as at 31 December 2019 (comprising properties of €1,378 mn classified as 'Stock of property' and €112 mn as 'Investment properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €21 mn as at 30 September 2020 (compared to €23 mn as at 30 June 2020 and to €24 mn as at 31 December 2019), relate to legacy properties held by the Bank before the set-up of REMU in January 2016.

Assets held by REMU (Group) **€ mn**	**9M2020**	**9M2019**	**3Q2020**	**2Q2020**	qoq ±%	yoy ±%
Opening balance	**1,490**	1,530	**1,456**	1,484	-2%	-3%
On-boarded assets (including construction cost)	**74**	159	**44**	18	147%	-53%
Sales	**(48)**	(159)	**(24)**	(10)	148%	-70%
Impairment loss	**(38)**	(12)	**(9)**	(25)	-70%	218%
Transfer to non-current assets and disposal groups held for sale	**(11)**	(5)	**-**	(11)	-	120%
Closing balance	**1,467**	1,513	**1,467**	1,456	1%	-3%

A. Group Financial Results – Underlying Basis (continued)

A.1. Balance Sheet Analysis (continued)

A.1.6 Real Estate Management Unit (REMU) (continued)

Analysis by type and country 30 September 2020 (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	**177**	**25**	**0**	**202**
Offices and other commercial properties	**219**	**26**	**6**	**251**
Manufacturing and industrial properties	**74**	**26**	**0**	**100**
Hotels	**24**	**0**	**-**	**24**
Land (fields and plots)	**619**	**7**	**2**	**628**
Golf courses and golf-related property	**262**	**-**	**-**	**262**
Total	**1,375**	**84**	**8**	**1,467**

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

A.1.7 Non-core overseas exposures

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

€ mn	30 September 2020	31 December 2019
Greece	**128**	139
Romania	**20**	25
Russia	**12**	19
Total	**160**	183

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

In addition to the above, as at 30 September 2020, there were overseas exposures of €270 mn in Greece, relating to both loans and properties (compared to €269 mn at 30 June 2020 and to €265 mn at 31 December 2019), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

A. Group Financial Results – Underlying Basis (continued)

A.2. Income Statement Analysis

A.2.1 Total income

€ mn	9M2020	9M2019[1]	3Q2020	2Q2020	qoq ±%	yoy ±%
Net interest income	**250**	**260**	**82**	**83**	-1%	-4%
Net fee and commission income	106	111	35	33	6%	-4%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	14	34	2	6	-76%	-59%
Insurance income net of claims and commissions	42	42	13	18	-28%	0%
Net gains/ (losses) from revaluation and disposal of investment properties and on disposal of stock of properties	2	26	2	(1)	-	-90%
Other income	11	22	3	4	-13%	-48%
Non-interest income	**175**	**235**	**55**	**60**	-9%	-25%
Total income	**425**	**495**	**137**	**143**	-5%	-14%
Net Interest Margin (annualised)[2]	1.87%	1.92%	1.79%	1.88%	-9 bps	-5 bps
Average interest earning assets (€ mn)[2]	17,865	18,103	18,191	17,690	3%	-1%

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

Net interest income (NII) and net interest margin (NIM) for 9M2020 amounted to €250 mn and 1.87% respectively, down by 4% year on year, mainly due to the lower volume of new loans. NII and NIM for 3Q2020 amounted to €82 mn (compared to €83 mn for 2Q2020) and 1.79% (compared to 1.88% for 2Q2020) respectively.

Average interest earning assets for 9M2020 amounted to €17,865 mn, down by 1% yoy, mainly driven by the reduction in net loans. Quarterly average interest earning assets for 3Q2020 amounted to €18,191 mn, compared to €17,690 mn for 2Q2020 (up by 3% qoq), following the increase of liquid assets resulting from the participation in TLTRO III in June 2020, partly offset by the reduction in net loans.

Non-interest income for 9M2020 amounted to €175 mn (compared to €235 mn in 9M2019, down by 25% yoy), comprising net fee and commission income of €106 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €14 mn, net insurance income of €42 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €2 mn and other income of €11 mn. Non-interest income for 3Q2020 amounted to €55 mn (compared to €60 mn for 2Q2020) down by 9% qoq, negatively impacted by lower insurance fees and revaluation loss on financial instruments, partly offset by an increase in net fees and commission income.

Net fee and commission income for 9M2020 amounted to €106 mn, compared to €111 mn for 9M2019, reflecting the COVID-19 lockdown in 1H2020. **Net fee and commission income** for 3Q2020 amounted to €35 mn, compared to €33 mn for 2Q2020, as transactional volumes gradually recovered post the COVID-19 lockdown.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €14 mn for 9M2020 (comprising net foreign exchange gains of €15 mn and net revaluation losses on financial instrument transactions of €1 mn) decreased by 59% yoy. The yoy decrease is mainly driven by lower net revaluation gains and lower net foreign exchange gains in 9M2020. Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €2 mn for 3Q2020 (comprising net foreign exchange gains of €4 mn and net revaluation losses on financial instrument transactions of €2 mn) decreased by 76% qoq, driven by higher revaluation loss on financial instruments in 3Q2020 (c.€7 mn) and higher net foreign exchange gains.

A. Group Financial Results – Underlying Basis (continued)

A.2. Income Statement Analysis (continued)

A.2.1 Total income (continued)

Net insurance income of €42 mn for 9M2020, remained flat yoy. Net insurance income of €13 mn for 3Q2020, compared to €18 mn for 2Q2020 (down by 28% qoq), mainly due to lower claims in 2Q2020 as a result of the lockdown and lower management fee income from unit-linked funds in 3Q2020 reflecting the performance of the market.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 9M2020 amounted to €2 mn (comprising a profit on disposal of stock of properties of €6 mn and loss from revaluation of investment properties of €4 mn), compared to €26 mn in 9M2019, impacted by the COVID-19 lockdown. Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 3Q2020 amounted to €2 mn (compared to net losses of €1 mn in 2Q2020), as sales volume gradually picked up in 3Q2020 post COVID-19 lockdown. REMU profit remains volatile.

Total income for 9M2020 amounted to €425 mn, compared to €495 mn for 9M2019 (down by 14% yoy). Total income for 3Q2020 amounted to €137 mn, compared to €143 mn for 2Q2020.

A. Group Financial Results – Underlying Basis (continued)

A.2. Income Statement Analysis (continued)

A.2.2 Total expenses

€ mn	9M2020	9M2019[1]	3Q2020	2Q2020	qoq ±%	yoy ±%
Staff costs	(145)	(167)	(49)	(47)	5%	-12%
Other operating expenses	(104)	(122)	(35)	(34)	4%	-15%
Total operating expenses	**(249)**	**(289)**	**(84)**	**(81)**	4%	-13%
Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)	(24)	(18)	(9)	(6)	42%	28%
Total expenses	**(273)**	**(307)**	**(93)**	**(87)**	7%	-11%
Cost to income ratio[2]	64%	62%	68%	61%	+7 p.p.	+2 p.p.
Cost to income ratio excluding special levy and contributions to SRF and DGF[2]	59%	58%	62%	57%	+5 p.p.	+1 p.p.

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

Total expenses for 9M2020 were €273 mn (compared to €307 mn for 9M2019 and down by 11% yoy), 53% of which related to staff costs (€145 mn), 38% to other operating expenses (€104 mn) and 9% (€24 mn) to special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF). The yoy decrease is driven by lower other operating expenses and lower staff costs.

Total operating expenses for 9M2020 were €249 mn, compared to €289 mn for 9M2019 (down by 13% yoy). Total operating expenses for 3Q2020 were €84 mn, compared to €81 mn for 2Q2020 (up by 4% qoq).

Staff costs of €145 mn for 9M2020 decreased by 12% yoy (compared to €167 mn in 9M2019), mainly driven by cost savings following the completion of the voluntary staff exit plan (VEP) in 4Q2019, through which c.11% of the Group's full-time employees were approved to leave at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019. The annual savings net of the impact from the renewal of the collective agreement for 2019 and 2020, are estimated at €23 mn or 11% of staff costs. Staff costs of €49 mn for 3Q2020 increased by 5% qoq (compared to €47 mn in 2Q2020), following the normalisation of staff costs post COVID-19 lockdown measures in 2Q2020 (special annual leaves to vulnerable groups and suspension of the contribution to the national health system).

The Group employed 3,577 persons as at 30 September 2020 (compared to 3,579 as at 30 June 2020 and 3,672 as at 31 December 2019, including c.100 persons relating to Project Helix who were transferred to the buyer upon full migration in January 2020). The staff costs related to these persons are included under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis.

Other operating expenses for 9M2020 were €104 mn, decreased by 15% yoy from €122 mn in 9M2019, mainly due to lower consultancy, marketing and property-related expenses in 9M2020. Other operating expenses for 3Q2020 were €35 mn, at similar levels as 2Q2020.

Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF) for 9M2020 was €24 mn, compared to €18 mn in 9M2019 (increased by 28% yoy). Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF) for 3Q2020 was €9 mn, compared to €6 mn in 2Q2020 (increased by 42% qoq). The increase of €6 mn yoy and of €3 mn qoq is driven by the contribution of the Bank to the Deposit Guarantee Fund (DGF) of which €3 mn relates to 1H2020 and €3 mn relates to 2H2020 and is recorded in 1Q2020 and 3Q2020 respectively, in line with IFRSs.

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

The **cost to income ratio excluding special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)** for 9M2020 was 59%, broadly flat yoy. The cost to income ratio excluding special levy and contributions to SRF and DGF for 3Q2020 was 62%, compared to 57% in 2Q2020, reflecting a 4% qoq increase in total operating expenses and a 5% qoq decrease in total income.

A.2. Income Statement Analysis (continued)

A.2.3 (Loss)/profit before tax and non-recurring items

€ mn	9M2020	9M2019[1]	3Q2020	2Q2020	qoq ±%	yoy ±%
Operating profit	**152**	**188**	**44**	**56**	-23%	-19%
Loan credit losses	(118)	(117)	(31)	(23)	28%	1%
Impairments of other financial and non-financial assets	(36)	(9)	(7)	(25)	-73%	-
Provisions for litigation, claims, regulatory and other matters	(4)	(3)	0	(2)	-83%	33%
Total loan credit losses, impairments and provisions	**(158)**	**(129)**	**(38)**	**(50)**	-26%	22%
(Loss)/profit before tax and non-recurring items	**(6)**	**59**	**6**	**6**	7%	-
Cost of risk[2]	**1.25%**	**1.19%**	**0.97%**	**0.76%**	+21 bps	+6 bps

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

Operating profit for 9M2020 was €152 mn, compared to €188 mn for 9M2019, down by 19% yoy. Operating profit for 3Q2020 was €44 mn, compared to €56 mn for 2Q2020, down by 23% qoq, reflecting a 7% qoq increase in total expenses and a 5% qoq decrease in total income.

The **loan credit losses** for 9M2020 totalled €118 mn, broadly flat yoy. The loan credit losses for 3Q2020 totalled €31 mn, compared to €23 mn for 2Q2020 (up by 28% qoq). Regarding the economic effects of COVID-19, the impact of IFRS 9 Forward Looking Information (FLI) driven by the deterioration of the macroeconomic outlook, resulted in a €5 mn charge included in 3Q2020 loan credit losses (compared to charges of €10 mn and €28 mn included in 2Q2020 and 1Q2020 loan credit losses respectively).

The annualised loan credit losses charge (**cost of risk**) for 9M2020 accounted for 1.25% of gross loans, of which 45 bps reflect the deterioration of the macroeconomic outlook in 9M2020 (compared to an annualised loan credit losses charge of 1.19% for 9M2019).

At 30 September 2020, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €1,933 mn (compared to €2,043 mn at 30 June 2020 and €2,096 mn at 31 December 2019) and accounted for 15.7% of gross loans (compared to 16.4% at 30 June 2020 and 16.3% at 31 December 2019). The decrease in the allowance for expected loan credit losses in 3Q2020 amounted to €110 mn (compared to a decrease of €66 mn in 2Q2020).

Impairments of other financial and non-financial assets for 9M2020 amounted to €36 mn (compared to €9 mn for 9M2019) and for 3Q2020 to €7 mn (compared to €25 mn for 2Q2020). The increased impairments in 2Q2020 related mainly to specific, large, illiquid REMU properties.

Provisions for litigation, claims, regulatory and other matters for 9M2020 totalled €4 mn, compared to €3 mn for 9M2019. Provisions for litigation, claims, regulatory and other matters for 3Q2020 were nil, compared to €2 mn for 2Q2020.

A. Group Financial Results – Underlying Basis (continued)

A.2. Income Statement Analysis (continued)

A.2.4 (Loss)/profit after tax (attributable to the owners of the Company)

€ mn	9M2020	9M2019[1]	3Q2020	2Q2020	qoq ±%	yoy ±%
(Loss)/profit before tax and non-recurring items	**(6)**	**59**	6	**6**	7%	-
Tax	(7)	(1)	(2)	(3)	-18%	-
Loss/(profit) attributable to non-controlling interests	4	(2)	0	4	-96%	-
(Loss)/profit after tax and before non-recurring items (attributable to the owners of the Company)	**(9)**	**56**	4	**7**	-38%	-116%
Advisory and other restructuring costs – organic	(9)	(14)	(3)	(3)	1%	-36%
(Loss)/profit after tax – organic (attributable to the owners of the Company)	**(18)**	**42**	**1**	**4**	-71%	-
Provisions/net loss relating to NPE sales, including restructuring expenses[2]	(104)	(6)	3	(104)	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	-	(21)	-	-	-	-
Reversal of impairment of DTA and impairment of other tax receivables	-	101	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(122)**	**116**	**4**	**(100)**	-	-

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

The **tax charge** for 9M2020 is €7 mn, compared to €1 mn for 9M2019. The tax charge for 3Q2020 is €2 mn, compared to €3 mn for 2Q2020.

Loss after tax and before non-recurring items (attributable to the owners of the Company) for 9M2020 was €9 mn, compared to a profit of €56 mn for 9M2019. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 3Q2020 was €4 mn, compared to a profit of €7 mn for 2Q2020.

Advisory and other restructuring costs - organic for 9M2020 amounted to €9 mn, compared to €14 mn for 9M2019. Advisory and other restructuring costs - organic for 3Q2020 amounted to €3 mn, at the same level as for 2Q2020.

Loss after tax arising from the organic operations (attributable to the owners of the Company) for 9M2020 amounted to €18 mn, compared to a profit of €42 mn for 9M2019. Profit after tax arising from the organic operations (attributable to the owners of the Company) for 3Q2020 amounted to €1 mn, compared to €4 mn for 2Q2020.

Provisions/net loss relating to NPE sales, including restructuring expenses for 9M2020 amounts to €104 mn (compared to €6 mn for 9M2019) and for 3Q2020 amounts to a reversal of provisions of €3 mn (compared to provisions/net loss of €104 mn for 2Q2020). The amount of €104 mn for 2Q2020 included mainly the loan credit losses in relation to the then anticipated Project Helix 2 agreement of €68 mn and additional loan credit losses of €21 mn as a result of potential further NPE sales in the future. Restructuring costs relating to NPE sales of €1 mn for 2Q2020 were also included (Nil for 3Q2020).

Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates totalled €21 mn for 9M2019, comprising a loss on remeasurement of investment in associate upon classification as held for sale of €26 mn and a share of profit from associates of €5 mn. In October 2019, the Group completed the sale of its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited (CNP) that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013, for a cash consideration of €97.5 mn.

A. Group Financial Results – Underlying Basis (continued)

A.2. Income Statement Analysis (continued)

A.2.4 (Loss)/profit after tax (attributable to the owners of the Company) (continued)

The **reversal of impairment of DTA and impairment of other tax receivables** totalled €101 mn for 9M2019, comprising the net positive impact of €109 mn following amendments to the Income Tax legislation in Cyprus adopted in March 2019, and an impairment of €8 mn relating to Greek tax receivables adversely impacted from legislative changes. The carrying value of the remaining receivable as at 30 September 2020 was €5 mn (compared to €5 mn as at 30 June 2020 and 31 December 2019).

Loss after tax attributable to the owners of the Company for 9M2020 was €122 mn, compared to a profit of €116 mn for 9M2019. Profit after tax attributable to the owners of the Company for 3Q2020 was €4 mn, compared to a loss of €100 mn for 2Q2020.

B. Operating Environment

The COVID-19 pandemic is having a significant adverse effect on the global economy with economic contraction only moderated by aggressive monetary and fiscal policies. An effective vaccine, however, and latest news in this area are encouraging, will allow a return to normality much more quickly and change the economic outlook. Public finances will remain strained, and economies by and large, will exhibit low growth amidst low inflation and rising debt levels until the pandemic is brought under control.

According to the IMF's World Economic Outlook (Autumn 2020), the global economy in 2020 will contract by 4.2% when the world effects of the pandemic will be felt the most. Global disruptions will be significant and global trade will drop. Real GDP will contract across all regions in 2020, but more importantly so in the advanced economies and the Euro Area, than in emerging and developing economies. In the US, output is expected to contract by 4.3% compared with marginally positive growth expected in China.

The eurozone economy recorded a steep collapse in the first half of 2020 wiping out all growth since the global financial crisis. Italy, Portugal, Spain and France were hit the worst. Northern core countries like Germany, the Netherlands, Austria and Denmark were less affected. There has been a substantial recovery in the third quarter, but output is still declining on a year-on-year basis.

Cyprus' economic recovery following the crisis of 2012-2014 has been relatively solid. Real GDP expanded by 4.6% annually on average in the period 2015-2019, and unemployment dropped to 6.7% seasonally adjusted, in the fourth quarter of 2019. The COVID-19 pandemic is having a severe impact on economic activity particularly in sectors that are more open to international travel and trade. Tourist activity has been most affected. Total arrivals in the year to September 2020 for which actual data is available dropped by 84% from a year earlier and revenues by 87% through to August 2020. Real GDP dropped by 12.3% in the second quarter and by 4.4% in the third, after rising by 1.5% in the first quarter and by 3.1% in the whole of 2019. In addition to tourism, the contraction was driven by the trade and transport, manufacturing and the construction sectors.

On the expenditure side the contraction was driven by a steep drop in fixed investment, and to a lesser extent by a drop also in private consumption. Exports of goods and services also dropped steeply. The contraction was moderated by higher government consumption and by a steep drop in imports.

Real GDP is estimated to contract by 6.2% in 2020 and to recover by 3.7% and by 3% respectively in 2021 and 2022 according to the European Commission (European Forecasts, Autumn 2020). Economic activity is expected to be rebounding from the third quarter of 2020, but the pace of recovery will be constrained by Cyprus' heavy dependence on the travel and tourism sectors which will continue to face disruption until an effective vaccine is produced.

Unemployment which stood at 7% in the second quarter of the year (Eurostat) was contained by the Government's jobs protection schemes and business subsidies, but it might rise moderately in 2021 as support schemes are scaled back. Weak consumer confidence, moderately higher unemployment rate and lower wages combined are expected to limit private consumption at a slower pace than for output overall. Private consumption is expected to recover as confidence improves. Public consumption is also expected to moderate in 2021, following a steep rise in 2020 that reflected the Government's substantial fiscal response to the COVID-19 pandemic.

Gross fixed investment is influenced by ship registrations and de-registrations and so tends to be highly volatile from quarter to quarter. However, the decline in construction activity in the year and the uncertainty that prevailed led to a significant contraction in fixed investment. As uncertainty is reduced and as existing multi-year projects are revived, particularly in the tourism sector, fixed investment is expected to rise.

The termination of the investor citizenship scheme is expected to reduce demand for high-end residences, and thus may have a modest adverse effect on the building part of fixed investment. The scheme in itself was beneficial for the Cyprus economy mostly for its indirect effects on macroeconomic stabilisation. Its direct growth contribution was positive but modest. Economic conditions are now significantly different than when the investor for citizenship scheme was introduced.

Consumer inflation was moderate in the first quarter of the year and turned negative in the remainder of the year to October 2020. In total for the ten months, consumer prices declined by 0.7% reflecting weak domestic demand, lower energy prices in world markets, and the cut to the VAT rate for the tourism sector in July-December 2020. Consumer inflation will likely remain around current levels or a little lower for the remainder of the year. The current monetary and fiscal stimulus are not expected to feed into higher prices as people are still saving more and spending less. However, as the economy starts to emerge from recession in 2021, and as energy prices start to strengthen, inflation is expected to pick up gradually.

The current account balance is expected to deteriorate in 2020 as the services and incomes surplus shrinks sharply and the trade deficit narrows only modestly. The collapse of travel and transport earnings are causing a steep drop in the services surplus. The current account imbalance is expected to narrow from 2021 onwards as service earnings start to recover and EU recovery funds are credited in the secondary income account. Oil prices will likely be rising in the medium term, but remain low by the standards of recent years, thus helping to restrict the trade deficit relative to GDP.

B. Operating Environment (continued)

Cyprus recorded a fiscal surplus of 1.5% of GDP in 2019, which reduced the debt-to-GDP ratio to 94% from 99.2% at the end of 2018. The outbreak of the COVID-19 pandemic and the measures introduced to contain it and support companies and employment, are expected to push the budget into deficit which is expected to be substantial. Spending will be significantly higher in the year and tax revenues will be lower amidst the deep recession. As a result, the general government budget is expected to post a significant deficit of about 6.1% of GDP according to the European Commission and the debt to rise to 112.6% of GDP. The budget deficit is expected to contract in 2021-2022 as the economy strengthens and the Government scales back spending as a share of GDP. Also, the public debt ratio is expected to start to decline from 2021 onwards.

The potential realisation of contingent liabilities is a risk to public finances, in particular the large exposure of the state to the implementation of the National Health System (NHS). Other risks stem from the explicit contingent liabilities of the state through the asset protection schemes provided to Hellenic Bank in the context of the sale and dissolution of the Cooperative Central Bank in 2018.

The ECB has been overly accommodative since the global financial crisis of 2008 and particularly after 2012 to preserve the currency union. In response to the COVID-19 crisis, the ECB extended its quantitative easing programme and negative interest rates, and introduced additional measures, most importantly the Pandemic Emergency Purchase Programme (PEPP). This programme was initiated in March 2020 with an initial size of €750 bn and has been increased to €1.35 trillion in June 2020 and extended until at least mid-2021. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. The ECB also maintains ample liquidity in the banking system through its refinancing operations, but also by easing the rules around collateral that banks can use in exchange for central bank liquidity. The ECB is strongly committed to preventing financial fragmentation in the eurozone which keeps funding costs low and minimises the risk of a sovereign debt crisis in highly leveraged economies. The ECB is therefore the lender of last resort, but the size of the current crisis requires large scale fiscal intervention by governments and EU-led regional transfers.

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

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

Private debt continued to decline in 2020 both in absolute terms and in relation to GDP. Total outstanding balances of non-financial companies and households dropped further in the year to September 2020 to €23.5 bn, for which data is available, driven by restructuring measures and reductions in non-performing loans. Private debt still exceeds GDP on a gross basis and drops marginally below GDP on a net basis. This contrasts with the start of the crisis at the end of 2012, when private debt outstanding was 2.5x GDP.

The stock of NPEs in the Cypriot banking system declined from €20.9 bn at the end of December 2017 to €10.4 bn as at end-December 2018 after the sale of loans by the Bank (Project Helix) and the resolution of the Cyprus Cooperative Bank. NPEs dropped to €9.1 bn at the end of December 2019 and further to €6.7 bn at the end of June 2020, which consisted of €3.3 bn from households and €3.0 bn from non-financial companies, with financial companies comprising the remaining €0.4 bn. The ratio of NPEs to gross loans was 22.3% at the end of June 2020 from 28.0% at end-December 2019 and 30.5% at end December-2018. The share of restructured facilities was 46.6% and the coverage ratio stood at 55.3% at the end of June 2020. More visibility on the impact of the pandemic on the loan asset quality of the banking sector is expected after the expiration of the loan moratorium at the end of the year.

Sovereign ratings

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system. **Fitch Ratings** maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020. Its outlook was upgraded to positive in October 2019 and revised it to stable in April 2020, reflecting the significant impact the global COVID-19 pandemic might have on the Cyprus economy and fiscal position. **S&P Global Ratings** maintains an investment grade rating of BBB- with a stable outlook since September 2018. The rating and the outlook were affirmed in March and September 2020. **Moody's Investors Service** maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. In June 2020 Moody's Investors Service issued their Regular Update on their credit opinion for the Cyprus Sovereign and revised their forecasts for the Cyprus economy in view of the COVID-19 outbreak. According to the opinion, the outbreak will weigh on near term growth and fiscal prospects, but the impact on the credit profile is expected to be temporary. Most recently, in November 2020, **DBRS Ratings** affirmed the Republic of Cyprus's Long-Term Foreign and Local Currency – Issuer Ratings at BBB (low) with a stable trend.

C. Business Overview

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

The Group continues to deliver on its strategic priorities while supporting its customers, colleagues and community in which it operates through the COVID-19 crisis, ensuring at the same time that all of its branches operate in accordance with the guidelines and recommendations issued by the Ministry of Health.

Additionally, the Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. Signs of economic recovery to pre-pandemic levels marked the third quarter of the year, with the Cypriot economy showing more resilience than initially anticipated, proving its open, small and flexible characteristics. However, as the number of new COVID-19 cases has increased in recent weeks, local restrictions have been re-imposed to contain the spread, which is likely to lead to some loss of momentum in economic recovery in the fourth quarter. The latest news for an effective vaccine is encouraging, which in time should support a return to more normal conditions.

The changed economic environment resulted in lower levels of economic activity and credit formation, which gradually recovered in the third quarter of the year. In common with other European banks, the prolonged low interest rate environment also continues to present a challenge to the Group's profitability. As a consequence of the pandemic, the Bank has updated its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses in 9M2020 in line with the relevant regulatory guidance, resulting in increased organic loan credit losses for 9M2020 of €43 mn. As at 30 September 2020, the Bank expects, under the base scenario, the Cypriot economy to contract by 6.0% in 2020, with gradual recovery from 2021 onwards, with GDP growth of 4.0% for 2021. The Bank's projections are in line with those published by the IMF, the Cyprus Ministry of Finance, the European Commission and the Economics Research Centre of the University of Cyprus.

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

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

In accordance with the Pandemic Plan, the Group adopted a set of measures to ensure minimum disruption to its operations. The measures comprise rules for quarantine for vulnerable employees due to health conditions and for those returning from epicentres of the infection. The Group replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. Staff of critical functions have been split into separate locations. In addition, to ensure continuity of business, a number of employees have been working from home and the remote access capability has been upgraded significantly. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers. Some of these measures were gradually relaxed in 3Q2020. However, as the number of new COVID-19 cases has increased in recent weeks and local restrictions have been re-imposed to contain the spread, these measures are now becoming stricter and close monitoring of the situation continues.

Also, the potential economic implications for the sectors where the Group is active in are being assessed in order to identify possible mitigating actions for supporting the economy, such as supporting viable affected businesses and households with new lending to cover liquidity, working capital, capital expenditure and investments related to the activity of the borrower.

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

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal for the period to the end of the year, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Over 25,000 customers were approved, relating to gross loans of c.€5.9 bn as at 30 September 2020 (comprising gross loans to individuals of €2.1 bn and gross loans to businesses of €3.8 bn), representing 65% of total gross loans excluding the legacy book.

C. Business Overview (continued)

The Group continues to monitor the credit quality of loans under moratorium (payment holiday). A review campaign was initiated in May 2020 for gross loans of €5.2 bn. Approximately 80% of the review campaign has been completed with no significant change in the 'unlikely to pay' (UTP) status. However, as stricter measures - with a direct impact on the economy - are being imposed in recent weeks following the increase in the number of new COVID-19 cases, the monitoring and review of the credit quality of loans under moratorium remain both on-going and dynamic. In addition, borrowers representing 31% of loans of private individuals under moratorium have paid at least one instalment by 31 October 2020. These payments of instalments during FY2020 are accounted for as prepayments towards FY2021 instalments.

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

Tackling the Bank's loan portfolio quality is of utmost importance for the Group. Despite the challenging market conditions resulting from the outbreak of COVID-19, the Group signed an agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn related to non-performing exposures) as at 30 June 2020, known as Project Helix 2, another significant disposal of NPEs by the Bank. The combined de-risking actions in the first nine months of 2020, including Project Helix 2, have reduced NPEs by €1.5 bn on a pro forma basis. Overall, since the peak in 2014, the stock of NPEs has been reduced by €12.6 bn or 84% to €2.4 bn and the NPE ratio is reduced to 21%.

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

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

The foreclosure process which had been suspended following the outbreak of COVID-19, from 18 March 2020 until 31 August 2020, in line with the decision of the Association of Cyprus Banks, resumed on 1 September 2020.

The Group continues to provide high quality new loans via prudent underwriting standards and 99% of new exposures in Cyprus since 2016 are performing. Growth in new lending in Cyprus has been focused on selected industries more in line with the Bank's target risk profile, such as tourism, trade, real estate, professional services, information/communication technologies, energy, education and green projects, and following the outbreak of COVID-19, the focus remains to support the Cypriot economy in order to overcome this crisis. During the quarter ended 30 September 2020, new lending amounted to €288 mn, increased by 21% qoq as demand is picking up post the COVID-19 lockdown and driven by retail housing in the context of the Government scheme for interest rate subsidy. The pipeline for new housing loans is strong at over €148 mn as at mid-November 2020 (compared to over €65 mn as at mid-August 2020 published with the 2Q2020 financial results).

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

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

Management is also placing emphasis on diversifying income streams by optimising fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd (GIC) operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, and have been providing a stable, recurring fee income, further diversifying the Group's income streams. The insurance income net of claims and commissions for 9M2020 amounted to €42 mn, flat yoy, contributing to 24% of non-interest income.

In order to further optimise its funding structure, the Bank continues to focus on the shape and cost of deposit franchise, taking advantage of the increased customer confidence towards the Bank. The cost of deposits has been reduced by 70 bps to 6 bps over the last 33 months. The reduction in the cost of deposits amounts to 10 bps in 9M2020, compared to a reduction of 22 bps in 9M2019.

In addition, there are efforts underway to improve credit spreads, despite competition pressures. Moreover, liquidity fees for specific customer groups were introduced in March 2020. The introduction of liquidity fees to a broader group of corporate clients, that was delayed due to the COVID-19 pandemic, is expected to be implemented in 1Q2021. In August 2020 the Ministry of Finance issued three decrees, setting a limit on charges and fees charged in a calendar year to accounts with certain characteristics and for certain transactions, effected in November 2020. The revision of fees and commission charges is underway, whilst transactional fee volumes are expected to recover to pre-COVID-19 levels, as the Cypriot economy recovers. Finally, in June 2020, the Bank borrowed €1 bn from the fourth TLTRO III operation, despite its comfortable liquidity position, given the favourable borrowing rate, in combination with the relaxation of collateral terms. The annual potential benefit to the net interest income is estimated at €5 mn.

A key focus of the Group remains the active management of funding costs and on-going running expenses. The Digital Transformation Programme that started in 2017 has begun to deliver an improved customer experience (see section below), whilst the branch footprint rationalisation to date, further improved the Bank's operating model. The number of branches was reduced by 18% in 2019 and the branch network is now less than half the size it was in 2013. Management remains focused on further improvement in efficiency.

Digital Transformation

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

In recent months, a number of new features have been introduced within the Bank of Cyprus mobile app. Users can now use the app to apply and obtain an eIDAS-certified digital signature which enables them to electronically sign documents on any device, at any time. Additionally, a new feature has been introduced whereby 1bank users are able to top-up their CYTA and Epic telephony cards through the Bank's mobile app. Moreover, a new method for contacting 1bank subscribers is now in place. Users now have the option to receive push notifications in place of SMS messages for certain alerts. Push notifications are an instant, more secure channel that incurs no message specific cost to the bank. At this point in time, alerts relating to card purchases and ATM withdrawals are offered, however more of our alerts will gradually become available. The ability to send push notifications has been released in September 2020. Up to now, approximately 15,000 subscribers have been enrolled to receive Push Notifications.

The adoption of digital products and services continued to grow and gain momentum in 2020. As at the end of October 2020, 83.5% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by 19 p.p from 65% in September 2017 when the digital transformation programme was initiated). Regarding the use of mobile banking, the number of active users increased by 20% in 2019, and by a further 17% in the ten months to the end of October 2020. In addition, the rate of QuickPay active users has been steadily increasing. The highest number of active users in 2020 to date was recorded in October 2020 with c.81,000 active users. Likewise, the highest number of payments was also recorded in October 2020 with 197,000 transactions.

In 2020, as a result of the COVID-19 restrictive measures, a reduction in cash withdrawals and deposits performed through the branch network has been observed. An increase in the adoption of digital products and services and in digital subscriber penetration has also been observed as more customers have gained access to digital channels and more cards have been issued. As at the end of October 2020, 74% of customers were digitally engaged (up by 14 p.p. from 60% since the digital transformation programme was initiated in September 2017). A further increase is expected in 4Q2020 driven by the increase in the number of subscribers and the number of cards that have been issued.

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

In addition, Bank of Cyprus is the first Bank in the EU to offer its customers the ability to obtain a Qualified Digital Signature through the BoC mobile app without the need of physical presence. A Qualified Digital Signature has the same legal effect as the physical signature and thus can be used to sign digitally any document. Signing can be done substantially faster than before and offers an enhanced customer experience. The Bank currently offers the signing of some of the Bank's documentation with the use of a Digital Signature and has a roadmap in place to gradually offer the digital signing of the majority of the Bank's documents.

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

D. Strategy and Outlook

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

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

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

KEY STRATEGIC PILLARS	PLAN OF ACTION
Complete balance sheet de-risking	• Gross NPE reduction in 2021, through both organic and inorganic actions, expected to more than offset NPE inflows • Continue to assess potential to accelerate NPE reduction through additional NPE sales
Grow revenues in a more capital efficient way; by enhancing revenue generation via growth in performing book, and less capital-intensive banking and financial services operations (Insurance and Digital economy)	• **Mitigating actions against NII challenges put in place**, e.g. growing performing book and pricing away/price correctly deposits • **Enhance fee and commission income**, e.g. extension of liquidity fees to broader group of customers, introduction of a new price list, increase average product holding through cross selling, new sources of revenue through introduction of Digital Economy Platform • **Profitable insurance business with further opportunities to grow,** e.g. focus on high margin products, leverage on Bank's strong franchise and customer base for more targeted cross selling enabled by DT
Improve operating efficiency; by achieving leaner operations through digitisation and automation	• Offer exit solutions to release full time employees • Achieve further branch footprint rationalisation • Contain restructuring costs following completion of balance sheet de-risking • Enhance procurement control • Reduce total operating expenses by c.10% despite inflation
Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda; by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG priorities	• Enhanced structure and corporate governance • Focus on our people • Priority on ESG agenda

D. Strategy and Outlook (continued)

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

The Group has been through a period of considerable change and is now laying the foundations for delivering appropriate shareholder returns in the medium term.

Specifically, the near-term priorities include completing the balance sheet de-risking, whilst managing the post-pandemic NPE inflow; positioning the Bank on the path for sustainable profitability; ensuring the cost base remains appropriate, whilst further investing in the digital transformation programme in order to modernise the BOC franchise; addressing the challenges from low rates and surplus liquidity; and initiating MREL issuance and refinancing of Tier 2 subject to market conditions.

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

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

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

1. Return on Tangible Equity (ROTE) is calculated as Profit after Tax divided by Shareholders' equity minus intangibles assets.
2. Total operating expenses comprise staff costs and other operating expenses. Total operating expenses do not include the special levy or contributions to the Single Resolution Fund (SRF) or Deposit Guarantee Fund (DGF) and do not include any advisory or other restructuring costs.

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

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

E. Financial Results – Statutory Basis

Unaudited Interim Consolidated Income Statement

	Nine months ended 30 September	
	2020	2019 (restated)
	€000	€000
Turnover	**565,188**	716,164
Interest income	**295,959**	363,353
Income similar to interest income	**35,679**	40,178
Interest expense	**(47,311)**	(73,082)
Expense similar to interest expense	**(34,452)**	(36,440)
Net interest income	**249,875**	294,009
Fee and commission income	**111,910**	129,631
Fee and commission expense	**(5,330)**	(9,211)
Net foreign exchange gains	**14,636**	21,151
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries	**4,252**	14,540
Insurance income net of claims and commissions	**41,581**	41,731
Net (losses)/gains from revaluation and disposal of investment properties	**(3,851)**	1,473
Net gains on disposal of stock of property	**6,341**	24,180
Other income	**11,162**	21,639
	430,576	539,143
Staff costs	**(145,561)**	(169,982)
Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies	**(24,039)**	(24,970)
Other operating expenses	**(134,309)**	(167,809)
	126,667	176,382
Net gains on derecognition of financial assets measured at amortised cost	**1,760**	6,298
Credit losses to cover credit risk on loans and advances to customers	**(211,322)**	(140,750)
Credit losses of other financial instruments	**(229)**	(5,032)
Impairment of non-financial assets	**(35,677)**	(12,993)
(Loss)/profit before share of (loss)/profit from associates	**(118,801)**	23,905
Remeasurement of investment in associate classified as held for sale	**-**	(25,943)
Share of (loss)/profit from associates	**(97)**	5,400
(Loss)/profit before tax from continuing operations	**(118,898)**	3,362
Income tax	**(6,329)**	114,514
(Loss)/profit after tax for the period	**(125,227)**	117,876

Attributable to:		
Owners of the Company	**(121,568)**	115,614
Non-controlling interests	**(3,659)**	2,262
(Loss)/profit for the period	**(125,227)**	117,876

Basic and diluted (loss)/profit per share attributable to the owners of the Company (€ cent)	**(27.3)**	25.9

E. Financial Results – Statutory Basis (continued)

Unaudited Interim Consolidated Statement of Comprehensive Income

	Nine months ended 30 September	
	2020	2019
	€000	€000
(Loss)/profit for the period	**(125,227)**	117,876
Other comprehensive income (OCI)		
OCI that may be reclassified in the consolidated income statement in subsequent periods		
Fair value reserve (debt instruments)		
Net (losses)/gains on investments in debt instruments measured at fair value through OCI (FVOCI)	**(12,447)**	10,644
Transfer to the consolidated income statement on disposal	**(3,653)**	-
	(16,100)	10,644
Foreign currency translation reserve		
Profit/(loss) on translation of net investment in foreign branches and subsidiaries	**25,360**	(8,528)
(Loss)/profit on hedging of net investments in foreign branches and subsidiaries	**(23,983)**	9,668
Transfer to the consolidated income statement on dissolution of foreign subsidiary	**122**	(422)
	1,499	718
Total OCI that may be reclassified in the consolidated income statement in subsequent periods	**(14,601)**	11,362
OCI not to be reclassified in the consolidated income statement in subsequent periods		
Fair value reserve (equity instruments)		
Share of net gains from fair value changes of associates	**-**	4,200
Net (losses)/gains on investments in equity instruments designated at FVOCI	**(197)**	188
	(197)	4,388
Property revaluation reserve		
Deferred tax	**(459)**	29
	(459)	29
Actuarial losses on the defined benefit plans		
Remeasurement losses on defined benefit plans	**(3,773)**	(5,022)
Total OCI not to be reclassified in the consolidated income statement in subsequent periods	**(4,429)**	(605)
Other comprehensive (loss)/income for the period net of taxation	**(19,030)**	10,757
Total comprehensive (loss)/income for the period	**(144,257)**	128,633

Attributable to:		
Owners of the Company	**(140,457)**	126,344
Non-controlling interests	**(3,800)**	2,289
Total comprehensive (loss)/income for the period	**(144,257)**	128,633

E. Financial Results – Statutory Basis (continued)

Unaudited Interim Consolidated Balance Sheet

	30 September 2020	31 December 2019
Assets	**€000**	€000
Cash and balances with central banks	**5,506,401**	5,060,042
Loans and advances to banks	**529,393**	320,881
Derivative financial assets	**20,956**	23,060
Investments	**1,849,449**	1,682,869
Investments pledged as collateral	**176,797**	222,961
Loans and advances to customers	**10,046,718**	10,721,841
Life insurance business assets attributable to policyholders	**453,128**	458,852
Prepayments, accrued income and other assets	**284,275**	243,930
Stock of property	**1,358,046**	1,377,453
Deferred tax assets	**341,333**	379,126
Investment properties	**130,222**	136,197
Property and equipment	**278,187**	288,054
Intangible assets	**177,351**	178,946
Investments in associates and joint venture	**2,296**	2,393
Non-current assets and disposal groups held for sale	**360,990**	26,217
Total assets	**21,515,542**	21,122,822
Liabilities		
Deposits by banks	**404,800**	533,404
Funding from central banks	**997,250**	-
Repurchase agreements	**124,092**	168,129
Derivative financial liabilities	**49,699**	50,593
Customer deposits	**16,384,131**	16,691,531
Insurance liabilities	**640,680**	640,013
Accruals, deferred income, other liabilities and other provisions	**358,797**	324,246
Pending litigation, claims, regulatory and other matters	**111,545**	108,094
Subordinated loan stock	**266,508**	272,170
Deferred tax liabilities	**47,593**	46,015
Total liabilities	**19,385,095**	18,834,195
Equity		
Share capital	**44,620**	44,620
Share premium	**1,294,358**	1,294,358
Revaluation and other reserves	**200,635**	210,701
Retained earnings	**346,112**	490,286
Equity attributable to the owners of the Company	**1,885,725**	2,039,965
Other equity instruments	**220,000**	220,000
Total equity excluding non-controlling interests	**2,105,725**	2,259,965
Non-controlling interests	**24,722**	28,662
Total equity	**2,130,447**	2,288,627
Total liabilities and equity	**21,515,542**	21,122,822

E. Financial Results – Statutory Basis (continued)

Unaudited Interim Consolidated Balance Sheet (continued)

Comparative information was restated as follows:

- 'Fee and commission income' and 'Fee and commission expense' as restated, include elimination of intragroup amounts between 'Fee and commission income' and 'Fee and commission expense' amounting to €2,194 thousand, in line with the respective restatement made in Note 10 of the annual consolidated financial statements for the year ended 31 December 2019, in order to reflect the impact in the nine month comparative period.
- Levy in the form of a guarantee fee relating to the revised income tax legislation, Income Tax Law Amendment 28 (I) of 2019 enacted on 1 March 2019, of €6,255 thousand has been reclassified from 'Fee and commission expense' to 'Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies'. The restatement was made in line with the presentation in the annual consolidated financial statements for the year ended 31 December 2019, when the levy in the form of a guarantee fee was presented for the first time in the line of 'Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies'.
- Comparative information for 'Turnover' was restated to include the effect of the change in the 'Fee and commission income' as described above.

The above restatements are consistent with the presentation of such amounts in the Consolidated Financial Statements for the year ended 31 December 2019 within the 2019 Annual Financial Report and these did not have an impact on the results for the period or the equity of the Group.

E. Financial Results – Statutory Basis (continued)

Unaudited Interim Consolidated Statement of Changes in Equity

	Attributable to the shareholders of the Company											
	Share capital	Share premium	Treasury shares	Retained earnings	Property revaluation reserve	Financial instruments fair value reserve	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
1 January 2020	**44,620**	**1,294,358**	**(21,463)**	**490,286**	**79,286**	**33,900**	**102,051**	**16,927**	**2,039,965**	**220,000**	**28,662**	**2,288,627**
Loss for the period	-	-	-	(121,568)	-	-	-	-	**(121,568)**	-	(3,659)	**(125,227)**
Other comprehensive (loss)/income after tax for the period	-	-	-	(3,773)	(326)	(16,291)	-	1,501	**(18,889)**	-	(141)	**(19,030)**
Total comprehensive (loss)/income after tax for the period	-	-	-	(125,341)	(326)	(16,291)	-	1,501	**(140,457)**	-	(3,800)	**(144,257)**
Increase in value of in-force life insurance business	-	-	-	(5,771)	-	-	5,771	-	**-**	-	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	721	-	-	(721)	-	**-**	-	-	**-**
Change in the holding of Undertakings for Collective Investments in Transferable Securities (UCITS) Fund	-	-	-	(33)	-	-	-	-	**(33)**	-	-	**(33)**
Payment of coupon to AT1 holders	-	-	-	(13,750)	-	-	-	-	**(13,750)**	-	-	**(13,750)**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	**-**	-	(140)	**(140)**
30 September 2020	**44,620**	**1,294,358**	**(21,463)**	**346,112**	**78,960**	**17,609**	**107,101**	**18,428**	**1,885,725**	**220,000**	**24,722**	**2,130,447**

E. Financial Results – Statutory Basis (continued)

Unaudited Interim Consolidated Statement of Changes in Equity (continued)

	Attributable to the shareholders of the Company											
	Share capital	Share premium	Treasury shares	Retained earnings	Property revaluation reserve	Financial instruments fair value reserve	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
1 January 2019	**44,620**	**1,294,358**	**(21,463)**	**591,941**	**79,433**	**15,289**	**101,001**	**16,151**	**2,121,330**	**220,000**	**25,998**	**2,367,328**
Profit for the period	-	-	-	115,614	-	-	-	-	**115,614**	-	2,262	**117,876**
Other comprehensive (loss)/income after tax for the period	-	-	-	(5,022)	22	15,012	-	718	**10,730**	-	27	**10,757**
Total comprehensive income after tax for the period	-	-	-	110,592	22	15,012	-	718	**126,344**	-	2,289	**128,633**
Increase in value of in-force life insurance business	-	-	-	(2,000)	-	-	2,000	-	**-**	-	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	250	-	-	(250)	-	**-**	-	-	**-**
Payment of coupon to AT1 holders	-	-	-	(13,447)	-	-	-	-	**(13,447)**	-	-	**(13,447)**
Change in the holding of Undertakings for Collective Investments in Transferable Securities (UCITS) Fund	-	-	-	(11)	-	-	-	-	**(11)**	-	-	**(11)**
30 September 2019	**44,620**	**1,294,358**	**(21,463)**	**687,325**	**79,455**	**30,301**	**102,751**	**16,869**	**2,234,216**	**220,000**	**28,287**	**2,482,503**

F. Notes

F.1 Reconciliation of income statement between statutory and underlying basis

€ million	Underlying basis	NPE Sales	Other	Statutory basis
Net interest income	250	-	-	250
Net fee and commission income	106	-	-	106
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries	14	-	5	19
Insurance income net of claims and commissions	42	-	-	42
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	2	-	-	2
Other income	11	-	-	11
Total income	**425**	**-**	**5**	**430**
Total expenses	**(273)**	**(17)**	**(13)**	**(303)**
Operating profit	**152**	**(17)**	**(8)**	**127**
Loan credit losses	(118)	(87)	(5)	(210)
Impairments of other financial and non-financial assets	(36)	-	-	(36)
Provisions for litigation, claims, regulatory and other matters	(4)	-	4	-
Loss before tax and non-recurring items	**(6)**	**(104)**	**(9)**	**(119)**
Tax	(7)	-	-	(7)
Loss attributable to non-controlling interests	4	-	-	4
Loss after tax and before non-recurring items (attributable to the owners of the Company)	**(9)**	**(104)**	**(9)**	**(122)**
Advisory and other restructuring costs-organic	(9)	-	9	-
Loss after tax - organic* (attributable to the owners of the Company)	**(18)**	**(104)**	**-**	**(122)**
Provisions/net loss relating to NPE sales, including restructuring expenses	(104)	104	-	-
Loss after tax (attributable to the owners of the Company)	**(122)**	**-**	**-**	**(122)**

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

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

NPE sales

- Total expenses include restructuring costs of €4 million and operating expenses of €13 million mainly relating to the sale of portfolios of NPEs and are presented within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.
- Loan credit losses under the statutory basis include the loan credit losses relating to Project Helix 2 of €66 million and additional loan credit losses of €21 million within the context of IFRS 9 as a result of potential further NPE sales in the future; these are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.

Other reclassifications

- Advisory and other restructuring costs of approximately €9 million included in 'Other operating expenses' under the statutory basis are separately presented under the underlying basis since they represent one off items.
- Provisions for litigation, claims, regulatory and other matters amounting to €4 million included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis, since they mainly relate to cases that arose outside the normal activities of the Group.
- Net gains on loans and advances to customers at FVPL of €5 million included in 'Loan credit losses' under the underlying basis are included in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis. Their classification under the underlying basis is done in order to align them to the net losses on loans and advances to customers at amortised cost.

F.2 Customer deposits

The analysis of customer deposits is presented below:

	30 September 2020	31 December 2019
By type of deposit	**€000**	€000
Demand	**7,910,267**	7,595,231
Savings	**1,821,208**	1,567,344
Time or notice	**6,652,656**	7,528,956
	16,384,131	16,691,531
By geographical area		
Cyprus	**16,384,131**	16,691,531
By currency		
Euro	**14,738,714**	15,009,828
US Dollar	**1,245,416**	1,286,292
British Pound	**276,333**	288,289
Russian Rouble	**30,924**	30,113
Swiss Franc	**10,029**	10,803
Other currencies	**82,715**	66,206
	16,384,131	16,691,531
By customer sector		
Corporate	**1,092,571**	1,117,222
Global corporate	**641,682**	691,550
SMEs	**810,077**	770,655
Retail	**10,215,567**	10,140,920
Restructuring		
– Corporate	**34,836**	52,421
– SMEs	**18,821**	28,222
– Retail other	**9,239**	10,507
Recoveries		
– Corporate	**3,857**	6,140
International banking services	**3,284,057**	3,543,315
Wealth management	**273,424**	330,579
	16,384,131	16,691,531

Deposits by geographical area are based on the originator country of the deposit.

F.3 Loans and advances to customers

	30 September 2020	31 December 2019
	€000	€000
Gross loans and advances to customers at amortised cost	**10,879,628**	12,008,146
Allowance for ECL for impairment of loans and advances to customers	**(1,131,418)**	(1,655,598)
Loans and advances to customers at amortised cost	**9,748,210**	10,352,548
Loans and advances to customers measured at FVPL	**298,508**	369,293
	10,046,718	10,721,841

F. Notes (continued)

F.4 Credit risk concentration of gross loans and advances to customers

Industry and business lines concentrations and geographical analysis, based on the country in which loans are managed, of the Group's gross loans and advances to customers at amortised cost are presented in the table below:

	30 September 2020			31 December 2019		
	Cyprus	Other countries	**Total gross loans**	Cyprus	Other countries	**Total gross loans**
By economic activity	€000	€000	**€000**	€000	€000	**€000**
Trade	1,148,654	11,457	**1,160,111**	1,318,138	11,085	**1,329,223**
Manufacturing	406,322	2,532	**408,854**	451,470	3,222	**454,692**
Hotels and catering	945,911	782	**946,693**	915,040	799	**915,839**
Construction	689,858	2,929	**692,787**	827,567	3,272	**830,839**
Real estate	1,077,241	24,214	**1,101,455**	1,116,424	23,772	**1,140,196**
Private individuals	5,235,452	791	**5,236,243**	5,782,571	847	**5,783,418**
Professional and other services	656,484	28,656	**685,140**	774,304	41,965	**816,269**
Other sectors	647,733	612	**648,345**	736,993	677	**737,670**
	10,807,655	**71,973**	**10,879,628**	**11,922,507**	**85,639**	**12,008,146**
By business line						
Corporate	1,929,897	20,050	**1,949,947**	1,952,457	22,358	**1,974,815**
Global corporate	1,828,349	44,329	**1,872,678**	1,845,777	53,972	**1,899,749**
SMEs	1,101,151	6,925	**1,108,076**	1,101,718	8,586	**1,110,304**
Retail						
- housing	2,894,720	-	**2,894,720**	2,792,687	-	**2,792,687**
- consumer, credit cards and other	886,466	669	**887,135**	895,121	723	**895,844**
Restructuring						
- corporate	192,012	-	**192,012**	321,125	-	**321,125**
- SMEs	156,438	-	**156,438**	317,277	-	**317,277**
- retail housing	164,342	-	**164,342**	350,534	-	**350,534**
- retail other	98,599	-	**98,599**	179,045	-	**179,045**
Recoveries						
- corporate	50,838	-	**50,838**	90,607	-	**90,607**
- SMEs	228,364	-	**228,364**	433,578	-	**433,578**
- retail housing	628,234	-	**628,234**	844,657	-	**844,657**
- retail other	485,798	-	**485,798**	633,531	-	**633,531**
International banking services	129,681	-	**129,681**	133,652	-	**133,652**
Wealth management	32,766	-	**32,766**	30,741	-	**30,741**
	10,807,655	**71,973**	**10,879,628**	**11,922,507**	**85,639**	**12,008,146**

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by BOC PCL in Cyprus in its normal course of business with a carrying value of €184,095 thousand (31 December 2019: €184,130 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €86,256 thousand (31 December 2019: €80,324 thousand).

F. Notes (continued)

F.4 Credit risk concentration of gross loans and advances to customers (continued)

Loans and advances to customers classified as held for sale

Industry and business lines concentrations and geographical analysis, based on the country in which loans are managed, of the Group's gross loans and advances to customers at amortised cost classified as held for sale are presented in the tables below:

	30 September 2020			31 December 2019		
	Cyprus	Other countries	**Total gross loans**	Cyprus	Other countries	**Total gross loans**
By economic activity	€000	€000	**€000**	€000	€000	**€000**
Trade	78,474	-	**78,474**	18,039	-	**18,039**
Manufacturing	26,445	-	**26,445**	6,327	-	**6,327**
Hotels and restaurants	20,641	-	**20,641**	5,164	-	**5,164**
Construction	107,703	-	**107,703**	10,592	-	**10,592**
Real estate	49,350	-	**49,350**	1,263	-	**1,263**
Private individuals	501,214	-	**501,214**	110,663	-	**110,663**
Professional and other services	60,265	-	**60,265**	16,578	-	**16,578**
Other sectors	43,926	-	**43,926**	5,255	-	**5,255**
	888,018	**-**	**888,018**	**173,881**	**-**	**173,881**
By business line						
Corporate	-	-	**-**	**710**	-	**710**
SMEs	1	-	**1**	**5**	-	**5**
Retail						
- consumer, credit cards and other	39	-	**39**	**330**	-	**330**
Restructuring						
- corporate	68,560	-	**68,560**	**7,618**	-	**7,618**
- SMEs	54,227	-	**54,227**	**1,155**	-	**1,155**
- retail housing	58,126	-	**58,126**	**1,127**	-	**1,127**
- retail other	21,260	-	**21,260**	**40,112**	-	**40,112**
Recoveries						
- corporate	77,594	-	**77,594**	**17,640**	-	**17,640**
- SMEs	216,816	-	**216,816**	**20,691**	-	**20,691**
- retail housing	225,374	-	**225,374**	**4,752**	-	**4,752**
- retail other	166,021	-	**166,021**	**79,674**	-	**79,674**
International banking services	-	-	**-**	**67**	-	**67**
	888,018	**-**	**888,018**	**173,881**	**-**	**173,881**

F. Notes (continued)

F.5 Analysis of loans and advances to customers by staging

The following tables present the Group's gross loans and advances to customers at amortised cost by staging and by business line concentration:

30 September 2020	Stage 1	Stage 2	Stage 3	POCI	Total
By business line	€000	€000	€000	€000	**€000**
Corporate	1,521,867	351,730	41,210	35,140	**1,949,947**
Global corporate	1,421,544	303,981	110,757	36,396	**1,872,678**
SMEs	781,949	288,578	26,178	11,371	**1,108,076**
Retail					
- housing	2,286,107	523,223	73,724	11,666	**2,894,720**
- consumer, credit cards and other	611,132	220,501	37,787	17,715	**887,135**
Restructuring					
- corporate	32,023	63,320	80,491	16,178	**192,012**
- SMEs	20,701	30,351	92,186	13,200	**156,438**
- retail housing	1,523	8,479	149,621	4,719	**164,342**
- retail other	179	2,315	92,696	3,409	**98,599**
Recoveries					
- corporate	-	-	42,576	8,262	**50,838**
- SMEs	-	-	205,989	22,375	**228,364**
- retail housing	-	-	522,862	105,372	**628,234**
- retail other	223	4	399,728	85,843	**485,798**
International banking services	76,431	43,074	9,956	220	**129,681**
Wealth management	21,071	8,853	1,858	984	**32,766**
	6,774,750	**1,844,409**	**1,887,619**	**372,850**	**10,879,628**

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
By business line	€000	€000	€000	€000	**€000**
Corporate	1,624,886	247,501	61,917	40,511	**1,974,815**
Global corporate	1,456,080	258,425	149,464	35,780	**1,899,749**
SMEs	837,825	221,977	40,219	10,283	**1,110,304**
Retail					
- housing	2,202,044	430,200	149,020	11,423	**2,792,687**
- consumer, credit cards and other	646,648	169,063	60,890	19,243	**895,844**
Restructuring					
- corporate	32,879	60,545	197,319	30,382	**321,125**
- SMEs	49,193	55,345	193,415	19,324	**317,277**
- retail housing	2,604	3,866	334,892	9,172	**350,534**
- retail other	430	607	172,079	5,929	**179,045**
Recoveries					
- corporate	-	-	74,637	15,970	**90,607**
- SMEs	-	-	372,046	61,532	**433,578**
- retail housing	-	-	702,392	142,265	**844,657**
- retail other	216	-	499,018	134,297	**633,531**
International banking services	75,965	44,317	12,788	582	**133,652**
Wealth management	16,099	11,522	2,121	999	**30,741**
	6,944,869	**1,503,368**	**3,022,217**	**537,692**	**12,008,146**

F. Notes (continued)

F.5 Analysis of loans and advances to customers by staging (continued)

The following table presents the Group's gross loans and advances to customers at amortised cost by staging and geographical analysis, based on the country in which loans are managed:

30 September 2020	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	6,774,156	1,844,409	1,816,240	372,850	**10,807,655**
Other countries	594	-	71,379	-	**71,973**
	6,774,750	**1,844,409**	**1,887,619**	**372,850**	**10,879,628**

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	6,944,083	1,503,368	2,937,364	537,692	**11,922,507**
Other countries	786	-	84,853	-	**85,639**
	6,944,869	**1,503,368**	**3,022,217**	**537,692**	**12,008,146**

Loans and advances to customers classified as held for sale

The following tables present the Group's gross loans and advances to customers at amortised cost classified as held for sale by staging and by business line concentration.

30 September 2020	Stage 1	Stage 2	Stage 3	POCI	**Total**
By business line	€000	€000	€000	€000	**€000**
SMEs	-	-	-	1	**1**
Retail					
- consumer, credit cards and other	-	4	35	-	**39**
Restructuring					
- corporate	66	894	66,169	1,431	**68,560**
- SMEs	1,667	5,745	44,910	1,905	**54,227**
- retail housing	479	9,281	45,973	2,393	**58,126**
- retail other	234	1,103	19,114	809	**21,260**
Recoveries					
- corporate	-	-	62,581	15,013	**77,594**
- SMEs	-	-	178,903	37,913	**216,816**
- retail housing	-	-	194,147	31,227	**225,374**
- retail other	-	-	122,789	43,232	**166,021**
	2,446	**17,027**	**734,621**	**133,924**	**888,018**

F. Notes (continued)

F.5 Analysis of loans and advances to customers by staging (continued)

Loans and advances to customers classified as held for sale (continued)

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
By business line	€000	€000	€000	€000	**€000**
Corporate	-	360	350	-	**710**
SMEs	-	-	2	3	**5**
Retail					
- consumer, credit cards and other	139	47	144	-	**330**
Restructuring					
- corporate	20	410	6,162	1,026	**7,618**
- SMEs	7	1	952	195	**1,155**
- retail housing	4	-	1,119	4	**1,127**
- retail other	6	2	36,549	3,555	**40,112**
Recoveries					
- corporate	-	-	14,543	3,097	**17,640**
- SMEs	-	-	15,392	5,299	**20,691**
- retail housing	-	-	3,954	798	**4,752**
- retail other	-	-	71,020	8,654	**79,674**
International banking services	-	-	19	48	**67**
	176	**820**	**150,206**	**22,679**	**173,881**

The geographical area, based on the country in which loans are managed, of the gross loans and advances to customers classified as held for sale as at 30 September 2020 and 31 December 2019 is Cyprus.

F.6 Credit losses to cover credit risk on loans and advances to customers

	Nine months ended 30 September	
	2020	2019
	€000	€000
Impairment loss net of reversals on loans and advances to customers	**212,773**	164,952
Recoveries of loans and advances to customers previously written off	**(17,734)**	(18,096)
Changes in expected cash flows	**17,925**	(798)
Financial guarantees and commitments	**(1,642)**	(5,308)
	211,322	140,750

F. Notes (continued)

F.6 Credit losses to cover credit risk on loans and advances to customers (continued)

The movement in ECL of loans and advances, including the loans and advances to customers held for sale, and the closing balance analysis by staging, is as follows:

30 September 2020	Cyprus	Other countries	**Total**
	€000	€000	**€000**
1 January	1,742,103	61,447	**1,803,550**
Foreign exchange and other adjustments	(348)	(4,018)	**(4,366)**
Write offs	(272,392)	(16,982)	**(289,374)**
Interest (provided) not recognised in the income statement	63,289	(3,719)	**59,570**
Disposal of Velocity 2 portfolio	(112,098)	-	**(112,098)**
Charge for the period	195,541	17,232	**212,773**
30 September	**1,616,095**	**53,960**	**1,670,055**
Stage 1	23,813	-	**23,813**
Stage 2	34,590	-	**34,590**
Stage 3	1,349,418	53,960	**1,403,378**
POCI	208,274	-	**208,274**
Total	**1,616,095**	**53,960**	**1,670,055**

30 September 2019	Cyprus	Other countries	**Total**
	€000	€000	**€000**
1 January	3,315,259	146,746	**3,462,005**
Foreign exchange and other adjustments	6,624	3,732	**10,356**
Write offs	(314,988)	(34,978)	**(349,966)**
Interest (provided) not recognised in the income statement	96,513	4,956	**101,469**
Disposal of Helix and Velocity portfolios	(1,548,060)	(54,765)	**(1,602,825)**
Charge for the period	165,069	(117)	**164,952**
30 September	**1,720,417**	**65,574**	**1,785,991**
Stage 1	20,561	3	**20,564**
Stage 2	40,500	-	**40,500**
Stage 3	1,449,622	65,571	**1,515,193**
POCI	209,734	-	**209,734**
Total	**1,720,417**	**65,574**	**1,785,991**

The charge on loans and advances to customers, including the loans and advances to customers held for sale, by staging for the period is presented in the table below:

	Nine months ended 30 September	
	2020	2019
	€000	€000
Cyprus		
Stage 1	**3,969**	(10,226)
Stage 2	**(5,373)**	(79)
Stage 3	**196,945**	175,374
	195,541	165,069
Other countries		
Stage 3	**17,232**	(117)
	212,773	164,952

F. Notes (continued)

F.6 Credit losses to cover credit risk on loans and advances to customers (continued)

The credit losses of loans and advances to customers above include credit losses relating to loans and advances to customers classified as held for sale, which are analysed by staging and geographical analysis in the table below:

30 September 2020	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	1,010	9,297	450,347	77,983	**538,637**
	1,010	**9,297**	**450,347**	**77,983**	**538,637**
Collectively assessed	1,010	9,297	450,347	77,983	**538,637**

There were no loans and advances to customers classified as held for sale as at 30 September 2019.

During the nine months ended 30 September 2020 the total non-contractual write-offs recorded by the Group amounted to €212,782 thousand (nine months ended 30 September 2019: €185,700 thousand).

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used as the basis to estimate updated market values of properties supplemented by management judgement where necessary given the difficulty in differentiating between short term impacts and long term structural changes and the shortage of market evidence for comparison purposes, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. Any positive cumulative average future change in forecasted property values was capped to zero, whereas any projected decrease is taken into account, for the nine months ended 30 September 2020 and the year 2019. This applies to all scenarios.

At 30 September 2020 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provision calculation for loans and advances to customers excluding those classified as held for sale is c.32% under the baseline scenario (31 December 2019: c.32%).

The timing of recovery from real estate collaterals used in the collectively assessed provision calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario (31 December 2019: average seven years), excluding those classified as held for sale.

For the calculation of individually assessed allowances for ECL, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case.

For the calculation of expected credit losses three scenarios were used; base, adverse and favourable with 50%, 30% and 20% probability respectively.

For Stage 3 customers, the base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by one year with reference to the baseline scenario. Under the favourable scenario, applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures. In the case of loans and advances to customers held for sale, the Group has taken into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL. Amounts previously written off which are expected to be recovered through sale, are included in 'Recoveries of loans and advances to customers previously written off'.

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

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

F. Notes (continued)

F.7 Rescheduled loans and advances to customers

The below table presents the Group's rescheduled loans and advances to customers by staging and geographical classification, excluding those classified as held for sale.

	30 September 2020			31 December 2019		
	Cyprus	Other countries	**Total**	Cyprus	Other countries	**Total**
	€000	€000	**€000**	€000	€000	**€000**
Stage 1	250,367	106	**250,473**	357,658	114	**357,772**
Stage 2	261,597	-	**261,597**	299,448	-	**299,448**
Stage 3	918,834	30,776	**949,610**	1,567,155	33,253	**1,600,408**
POCI	131,244	-	**131,244**	202,502	-	**202,502**
	1,562,042	**30,882**	**1,592,924**	**2,426,763**	**33,367**	**2,460,130**

F.8 Credit risk disclosures

According to the European Banking Authority's (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing loans, Non-Performing Exposures (NPEs) are defined as those exposures that satisfy one of the following conditions:

(i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.
(iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due.
(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
(v) Performing forborne exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are 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 problematic part of the exposure is classified as non-performing.

- Material arrears/excesses are defined as follows:
  - Retail exposures: Total arrears/excesses amount greater than €100
  - Exposures other than retail: Total arrears/excesses are greater than €500

  and the amount in arrears/excess in relation to the customer's total exposure is at least 1%.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

(i) The extension of forbearance measures does not lead to the recognition of impairment or default.
(ii) One year has passed since the forbearance measures were extended.
(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
(iv) No unlikely-to-pay criteria exist for the debtor.
(v) The debtor has made post-forbearance payments of a non-insignificant amount of capital (different capital thresholds exist according to the facility type).

F.8 Credit risk disclosures (continued)

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

30 September 2020	Gross loans and advances to customers[1]				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
			Of which exposures with forbearance measures				Of which exposures with forbearance measures	
	Group gross customer loans and advances[2]	Of which NPEs	Total exposures with forbearance measures	Of which NPEs	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which NPEs	Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	**57,738**	-	-	-	**3,256**	-	-	-
Other financial corporations	**124,297**	13,899	15,529	2,015	**15,484**	10,073	1,357	725
Non-financial corporations	**5,656,195**	861,483	708,872	451,961	**535,910**	455,341	218,370	206,546
Of which: Small and Medium sized Enterprises[3] (SMEs)	**4,028,232**	630,164	641,610	417,040	**442,825**	380,986	202,364	191,354
Of which: Commercial real estate[3]	**4,210,547**	488,276	608,395	375,812	**320,293**	255,213	172,836	162,874
Non-financial corporations by sector								
Construction	**686,248**	130,152			**83,446**			
Wholesale and retail trade	**1,134,238**	257,513			**143,297**			
Accommodation and food service activities	**1,102,560**	31,163			**43,900**			
Real estate activities	**1,213,129**	211,463			**107,132**			
Manufacturing	**400,830**	76,024			**50,145**			
Other sectors	**1,119,190**	155,168			**107,990**			
Households	**5,556,052**	1,462,541	1,073,020	765,881	**792,914**	726,576	341,780	331,939
Of which: Residential mortgage loans[3]	**4,306,230**	1,147,452	865,772	621,156	**572,237**	519,393	256,575	249,084
Of which: Credit for consumption[3]	**684,438**	194,180	124,544	102,513	**115,605**	111,249	51,110	49,864
	11,394,282	**2,337,923**	**1,797,421**	**1,219,857**	**1,347,564**	**1,191,990**	**561,507**	**539,210**
Loans and advances to customers as held for sale	**919,162**	**899,657**	**531,773**	**516,627**	**569,781**	**559,589**	**311,568**	**303,281**
Total on-balance sheet	**12,313,444**	**3,237,580**	**2,329,194**	**1,736,484**	**1,917,345**	**1,751,579**	**873,075**	**842,491**

[1] 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).
[2] Excluding loans and advances to central banks and credit institutions.
[3] The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

F. Notes (continued)

F.8 Credit risk disclosures (continued)

31 December 2019	Gross loans and advances to customers[4]				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
	Group gross customer loans and advances[5]	Of which NPEs	Of which exposures with forbearance measures		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	**56,921**	1	-	-	**3,389**	-	-	-
Other financial corporations	**124,343**	27,459	18,489	2,366	**17,542**	14,843	1,466	462
Non-financial corporations	**6,271,155**	1,382,074	1,216,902	737,602	**753,848**	686,025	348,577	337,290
Of which: Small and Medium sized Enterprises[6]	**4,662,994**	1,073,846	786,069	556,483	**636,820**	576,635	271,110	261,229
Of which: Commercial real estate[6]	**4,270,225**	858,998	767,008	480,382	**457,622**	402,751	219,952	211,902
Non-financial corporations by sector								
Construction	**823,276**	265,879			**144,336**			
Wholesale and retail trade	**1,294,815**	371,613			**185,720**			
Accommodation and food service activities	**1,055,448**	50,116			**44,823**			
Real estate activities	**1,266,772**	296,406			**153,802**			
Professional, scientific and technical activities	**425,134**	90,832			**53,916**			
Other sectors	**1,405,710**	307,228			**171,251**			
Households	**6,192,505**	2,285,998	1,577,249	1,245,937	**1,148,304**	1,080,696	526,423	513,772
Of which: Residential mortgage loans[6]	**4,808,202**	1,811,698	1,291,083	1,021,084	**842,389**	783,146	401,561	392,046
Of which: Credit for consumption[6]	**770,552**	280,584	177,047	151,313	**158,044**	156,642	71,357	70,065
	12,644,924	**3,695,532**	**2,812,640**	**1,985,905**	**1,923,083**	**1,781,564**	**876,466**	**851,524**
Loans and advances to customers classified as held for sale	**184,964**	**183,974**	**45,191**	**45,028**	**159,035**	**158,998**	**37,438**	**37,429**
Total on-balance sheet	**12,829,888**	**3,879,506**	**2,857,831**	**2,030,933**	**2,082,118**	**1,940,562**	**913,904**	**888,953**

[4] 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).
[5] Excluding loans and advances to central banks and credit institutions.
[6] The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

F. Notes (continued)

F.9 Pending litigation, claims, regulatory and other matters

The Group in the ordinary course of business, is subject to enquiries and examinations, requests for information, audits, investigations, legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of services or advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. Further, the Group, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the loan securities, data quality, tax exposures and other matters agreed with the buyers. As a result, the Group may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to these representations, warranties and indemnities. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent restructuring of BOC PCL in 2013 as a result of the bail-in Decrees, BOC PCL is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the bail-in Decrees. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory and other matters.

F.10 Liquidity regulation

The Group has to comply with provisions on the Liquidity Coverage Ratio (LCR) under CRD IV/CRR (as supplemented by relevant Regulations). It also monitors its position against the Net Stable Funding Ratio (NSFR) as proposed under Basel III and expected to become a regulatory indicator when Capital Requirements Regulation II (CRR II) is enforced with the limit set at 100%.

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

As at 30 September 2020 the Group was in compliance with all regulatory liquidity requirements. As at 30 September 2020, the LCR stood at 256% for the Group (compared to 208% at 31 December 2019) and was in compliance with the minimum regulatory requirement of 100%. As at 30 September 2020 the Group's NSFR, on the basis of the Basel III standards, was 135% (compared to 127% at 31 December 2019).

F.11 Liquidity reserves

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

Composition of the liquidity reserves	30 September 2020			31 December 2019		
	Internal Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible		Internal Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible	
		Level 1	Level 2A		Level 1	Level 2A
	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	**5,349,685**	**5,349,685**	**-**	4,898,360	4,898,361	-
Placements with banks	**336,290**	**-**	**-**	147,086	-	-
Liquid investments	**1,386,342**	**1,261,976**	**109,772**	1,214,197	1,115,196	124,763
Available ECB Buffer	**719,821**	**-**	**-**	1,116,249	-	-
Total	**7,792,138**	**6,611,661**	**109,772**	7,375,892	6,013,557	124,763

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

F.11 Liquidity reserves (continued)

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

Liquid investments under the Liquidity reserves as per LCR are shown at market values reduced by standard weights as prescribed by the LCR regulation. Liquid investments under Internal Liquidity reserves include all LCR and/or ECB eligible investments and are shown at market values net of haircut based on ECB haircuts and methodology.

Finally, available ECB buffer is not part of the Liquidity reserves as per LCR, since the assets in the ECB collateral pool are not LCR eligible but only eligible as collateral for Eurosystem credit operations.

The Liquidity Reserves are managed by Treasury.

Resulting from the outbreak of COVID-19, the ECB has adopted a broad set of policy measures to mitigate the economic impact of the crisis and to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy. A high-level description of the main measures which have a direct or indirect impact on the liquidity position of banks is described below.

In July 2020, ECB announced that it will allow banks to operate below the defined level of 100% of the LCR until at least end-2021. In addition, the package included a set of collateral easing measures, which resulted in increasing the banks' borrowing capacity at the ECB operations and improving the liquidity buffers due to the lower haircuts applied to the ECB eligible collateral the bank holds, that comprises of bonds and Additional Credit Claims (ACC). The collateral easing packages are designed as temporary measures (with the exception of part of the haircut reduction on ACCs which is permanent) that will remain in place until September 2021 with the flexibility to be extended or modified. Furthermore, the ECB enlarged the scope of the ACC framework, increasing the universe of eligible loans. In relation to existing collateral, the ECB announced changes in collateral rules, temporarily accepting collaterals with a rating below investment grade, up to a certain rating level.

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

F.12 Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

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

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Member states are required to transpose the CRD V into national law. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities (MREL)), but most changes will start to apply as of mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of, among others, changes to qualifying criteria for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR).

In addition, the Regulation (EU) 2016/445 of the ECB on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

F.12 Capital management (continued)

Moreover, in June 2020 Regulation (EU) 2020/873 came into force which provides for certain amendments in response to the COVID-19 pandemic, bringing forward some of the capital relieving measures that were due to come into force at a later stage and introducing modifications as part of the wider efforts of competent authorities to provide the support necessary to the institutions. The main amendments affecting the Group's own funds as at 30 September 2020 relate to the acceleration of the implementation of the new SME discount factor under CRR II introduced in June 2020 instead of June 2021 (lower RWAs), extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1 allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired loans and phasing in this starting from 2022. In addition, the amendments, introduce temporary treatment of unrealized gains and losses on exposures to central governments, to regional governments or to local authorities measured at fair value through other comprehensive income, which the Group elected to apply and implemented in the third quarter of 2020. Lastly finalisation of changes on the application of prudential treatment of software assets as amended by CRR II is expected in the fourth quarter of 2020 advancing the implementation to 2020 instead of 2021.

The CET1 ratio of the Group at 30 September 2020 stands at 14.6% and the total capital ratio at 18.1% on a transitional basis.

The minimum Pillar I total capital requirement is 8.0% and may be met, in addition to the 4.5% CET1 requirement, with up to 1.5% by AT1 capital and with up to 2.0% by T2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar I capital requirements (Pillar II add-ons).

Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 the Group's minimum phased in CET1 capital ratio and Total Capital Ratio remained unchanged for 2020 compared to 2019, when ignoring the phasing in of the Other Systemically Important Institution (O-SII) buffer. The Group's phased-in CET1 capital ratio was set at 11.0%, comprising of 4.5% Pillar I requirement, 3.0% Pillar II requirement (P2R), the Capital Conservation Buffer (CCB) of 2.5% (fully phased-in as of 1 January 2019) and the O-SII buffer of 1.0%.

The Group's Total Capital requirement is 14.5%, comprising of 8.0% Pillar I requirement (of which up to 1.50% could be in the form of AT1 capital and up to 2.00% in the form of T2 capital), 3.0% P2R, the CCB of 2.5% and the O-SII buffer of 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. The final 2019 SREP decision is effective from 1 January 2020.

In April 2020, and following ECB and EBA announcements on 12 March 2020 in response to the COVID-19 outbreak, BOC PCL received an amending SREP decision from the ECB amending the composition of the Pillar II additional own funds requirement, allowing to use AT1 capital and T2 capital to meet P2R and not only by CET1, compared to the 2019 final SREP decision received in December 2019 which required P2R to be met in full by CET1. This decision is effective from 12 March 2020. This brings forward a measure that was scheduled to come into force in January 2021 with CRD V. As a result of this amending decision, the minimum CET1 requirement of the Group decreased to 9.7%, comprising a 4.5% Pillar I requirement, a 1.7% P2R, the CCB of 2.5% (fully phased in as of 1 January 2019) and the O-SII buffer of 1.0%. ECB's capital easing measures for COVID-19 increased the Group's CET1 buffer by 131 bps. There is no change on the Total Capital requirement.

In addition, the EBA final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance (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. In line with the final 2019 SREP decision, these new provisions became effective from 1 January 2020.

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

The Group's minimum phased-in CET1 capital ratio requirement for 2019 was 10.5%, comprising of 4.5% Pillar I requirement, 3.0% P2R, CCB of 2.5% and O-SII buffer of 0.5%. The ECB had also provided non-public guidance for an additional Pillar II CET1 buffer.

The Group's minimum phased-in Total capital ratio requirement for 2019 was 14.0%, comprising of 8.0% Pillar I requirement (of which up to 1.50% could be in the form of AT1 capital and up to 2.00% in the form of T2 capital), 3.0% P2R, CCB of 2.5% and O-SII buffer of 0.5%.

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

F. Notes (continued)

F.12 Capital management (continued)

The capital position of the Group and BOC PCL at 30 September 2020 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

The CBC, in accordance with the Macroprudential Oversight of Institutions Law of 2015, sets, on a quarterly basis, the Countercyclical Capital Buffer (CCyB) level in accordance with the methodology described in this law. The CBC has set the level of the CCyB for Cyprus at 0% for the years 2020 and 2019.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. BOC PCL has been designated as an O-SII and the CBC set the O-SII buffer for BOC PCL and the Group at 2.0%.

This buffer is being phased in gradually, having started from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%). In April 2020, the CBC decided to delay the phasing in (0.5%) of the O-SII buffer on 1 January 2021 and 1 January 2022 by 12 months. Consequently, the O-SII buffer will be fully phased in on 1 January 2023, instead of 1 January 2022 as originally set.

The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated UCITS management company of the Group, BOC Asset Management Ltd, complies with the regulatory capital requirements of the Cyprus Securities and Exchange Commission (CySEC) laws and regulations as at 30 September 2020. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO), was behind the minimum initial capital requirement and the additional capital conservation buffer as at 30 September 2020 and 31 December 2019, whereas as at 30 September 2020 it also fell below the minimum total capital ratio requirement. In November 2020, CISCO took the necessary steps to restore its regulatory capital and comply with the minimum capital adequacy ratio requirements.

F.12.1 Capital position

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

Regulatory capital	Group		BOC PCL	
	30 September 2020	31 December 2019[7]	**30 September 2020**	31 December 2019[7]
	€000	€000	**€000**	€000
Transitional Common Equity Tier 1 (CET1)[8]	**1,734,560**	1,909,049	**1,692,782**	1,869,105
Transitional Additional Tier 1 capital (AT1)	**220,000**	220,000	**220,000**	220,000
Tier 2 capital (T2)	**195,380**	189,955	**250,000**	250,000
Transitional total regulatory capital	**2,149,940**	2,319,004	**2,162,782**	2,339,105
Risk weighted assets – credit risk[9]	**10,545,095**	11,547,303	**10,535,564**	11,518,932
Risk weighted assets – operational risk	**1,342,700**	1,342,700	**1,255,875**	1,255,875
Total risk weighted assets	**11,887,795**	12,890,003	**11,791,439**	12,774,807
	%	%	**%**	%
Transitional Common Equity Tier 1 ratio	**14.6**	14.8	**14.4**	14.6
Transitional total capital ratio	**18.1**	18.0	**18.3**	18.3

[7] As per the Annual Report 2019 and Pillar II Disclosures 2019.
[8] CET1 includes regulatory deductions, comprising, amongst others, intangible assets amounting to €45,098 thousand for the Group and €42,203 thousand for BOC PCL as at 30 September 2020 (31 December 2019: €51,204 thousand for the Group €48,463 thousand for BOC PCL).
[9] Includes Credit Valuation Adjustments (CVA).

F. Notes (continued)

F.12 Capital management (continued)

F.12.1 Capital position (continued)

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

Fully loaded	**Group**		**BOC PCL**	
	30 September 2020[10]	31 December 2019[11]	**30 September 2020**[10]	31 December 2019[11]
	%	%	**%**	%
Common Equity Tier 1 ratio	**12.8**	13.1	**12.6**	12.9
Total capital ratio	**16.5**	16.5	**16.6**	16.6

During the period ended 30 September 2020 the CET1 was negatively affected mainly by the phasing-in of IFRS 9 transitional adjustments on 1 January 2020, the decrease in reserves and the ECL charges, including provisions recognised as a result of the NPE sale agreement signed in August (Project Helix 2). Risk weighted assets movement and pre-provision income had a positive effect on CET1 ratio. The recently introduced adjustments in response to the COVID-19 pandemic, affected positively the CET1 ratio through increasing the IFRS9 add-back (dynamic component), the add-back in relation to unrealised losses of certain financial instruments measured at FVOCI and by decreasing Risk Weighted Assets through the implementation of the new SME discount factor, which expanded the population of performing exposures that benefit from lower risk weights and also revised the discount factor applicable to such exposures resulting in a reduction in RWAs by approximately €380 million.

As a result of the above, the CET1 ratio decreased by c.20 bps during the nine months ended 30 September 2020.

As part of the relaxation measures following the COVID-19 outbreak, on 12 March 2020, the ECB and the EBA announced that banks are temporarily allowed to operate below the level of capital defined by P2G, the CCB and the CCyb. In July 2020, the ECB committed to allow banks to operate below P2G and the combined buffer requirement until at least the end of 2022, without automatically triggering supervisory actions.

The Group has elected in prior years to apply the static-dynamic approach in relation to the transitional arrangements for the initial application of IFRS 9, where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased in gradually, pursuant to EU Regulation 2017/2395 and it therefore applies paragraph 4 of Article 473(a) of the CRR. The 'Static-dynamic' approach allows for recalculation of the transitional adjustment periodically on Stage 1 and Stage 2 loans, so as to reflect the increase of the ECL provisions within the transition period. The Stage 3 ECL remains static over the transition period as per the impact upon initial recognition.

The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. The impact on the capital position for the year 2018 was 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019 and to 30% (cumulative) for the year 2020.

Following the June 2020 amendments to the CRR, the Group applied the amendments in relation to the IFRS 9 transitional arrangements for Stage 1 and Stage 2 loans (i.e. the dynamic component) which provide for the extension of the transitional period for the dynamic component. A 100% add back of IFRS 9 provisions is allowed for the years 2020 and 2021 reducing to 75% in 2022, to 50% in 2023 and to 25% in 2024. The calculation at each reporting period is to be made against Stage 1 and Stage 2 provisions as at 1 January 2020, instead of 1 January 2018. The calculation of the static component has not been amended.

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

[10] IFRS 9 and application of the temporary treatment in accordance with Article 468 of CRR fully loaded.
[11] IFRS 9 fully loaded.

F.12.1 Capital position (continued)

Template IFRS 9/Article 468-FL: Comparison of institution's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR

		30 September 2020	30 June 2020	31 March 2020	31 December 2019	30 September 2019*
		€000	€000	€000	€000	€000
1	Common Equity Tier 1 (CET1) capital	**1,734,560**	1,707,010	1,806,926	1,909,049	1,974,153
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,502,062**	1,479,450	1,590,786	1,646,593	1,711,698
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied**	**1,726,264**	1,707,010	1,806,926	1,909,049	1,974,153
3	Tier 1 capital	**1,954,560**	1,927,010	2,026,926	2,129,049	2,194,153
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,722,062**	1,699,450	1,810,786	1,866,593	1,931,698
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied**	**1,946,264**	1,927,010	2,026,926	2,129,049	2,194,153
5	Total capital	**2,149,940**	2,126,084	2,227,575	2,319,004	2,391,436
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,937,107**	1,917,532	2,028,428	2,075,418	2,148,107
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied**	**2,141,644**	2,126,084	2,227,575	2,319,004	2,391,436
	Risk-weighted assets					
7	Total risk-weighted assets	**11,887,795**	11,960,184	12,598,792	12,890,003	13,757,700
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**11,655,297**	11,732,624	12,368,530	12,607,267	13,471,035
	Capital ratios					
9	Capital Ratios CET1 (as a percentage of risk exposure amount)	**14.6%**	14.3%	14.3%	14.8%	14.3%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**12.9%**	12.6%	12.9%	13.1%	12.7%

* Amounts and ratios exclude interim profits.
** The temporary treatment was first applied by the Group in the third quarter of 2020 and does not impact prior periods presented.

F. Notes (continued)

F.12 Capital management (continued)

F.12.1 Capital position (continued)

		30 September 2020	30 June 2020	31 March 2020	31 December 2019	30 September 2019*
		€000	€000	€000	€000	€000
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied**	**14.5%**	14.3%	14.3%	14.8%	14.3%
11	Tier 1 (as a percentage of risk exposure amount)	**16.4%**	16.1%	16.1%	16.5%	15.9%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.8%**	14.5%	14.6%	14.8%	14.3%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied**	**16.4%**	16.1%	16.1%	16.5%	15.9%
13	Total capital (as a percentage of risk exposure amount)	**18.1%**	17.8%	17.7%	18.0%	17.4%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**16.6%**	16.3%	16.4%	16.5%	15.9%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied**	**18.0%**	17.8%	17.7%	18.0%	17.4%
	Leverage ratio					
15	Leverage ratio total exposure measure	**21,377,843**	21,219,766	20,316,602	21,075,511	21,088,020
16	Leverage ratio	**9.1%**	9.1%	10.0%	10.1%	10.4%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**8.1%**	8.1%	9.0%	8.9%	9.3%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied**	**9.1%**	9.1%	10.0%	10.1%	10.4%

* Amounts and ratios exclude interim profits.
** The temporary treatment was first applied by the Group in the third quarter of 2020 and does not impact prior periods presented.

F. Notes (continued)

F.12 Capital management (continued)

F.12.1 Capital position (continued)

The decrease in RWAs is mainly driven by the decrease in the Credit risk RWA, which is analysed in in sections F.12.2 and F.12.3 below.

The increase in the leverage ratio total exposure measure from 31 December 2019 to 30 September 2020 follows the movements in the Group's balance sheet assets.

The decrease in the leverage ratio from 31 December 2019 to 30 September 2020 is driven by the decrease in the Capital measure (Tier 1).

F.12.2 Overview of RWA

		RWAs		**Minimum capital requirements**
		30 September 2020	31 December 2019	**30 September 2020**
		€000	€000	**€000**
1	Credit risk (excluding counterparty credit risk (CCR))	**10,417,181**	11,411,497	**833,374**
2	*Of which: the Standardised Approach*	***10,417,181***	*11,411,497*	***833,374***
6	CCR	**8,421**	12,618	**674**
7	*Of which: mark to market*	***6,203***	*9,568*	***497***
12	*Of which: Credit Valuation Adjustment (CVA)*	***2,218***	*3,050*	***177***
14	Securitisation exposures in the banking book (after the cap)	**40,304**	45,638	**3,224**
18	*Of which: Standardised Approach*	***40,304***	*45,638*	***3,224***
23	Operational risk	**1,342,700**	1,342,700	**107,416**
25	*Of which: Standardised Approach*	***1,342,700***	*1,342,700*	***107,416***
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**79,189**	77,550	**6,335**
29	**Total**	**11,887,795**	12,890,003	**951,023**

The decrease in RWAs is mainly driven by the decrease in the Credit risk RWA observed in the first line of the table above, which is analysed in section F.12.3 below.

There were no large exposures for institutions that exceeded the relevant limits.

F. Notes (continued)

F.12 Capital management (continued)

F.12.3 Standardised approach – Credit risk exposure and Credit Risk Mitigation (CRM) effects

The table below illustrates the analysis of RWA and RWA density of all exposure classes that comprise the RWA reported in lines 1 and 27 of the table in section F.12.2 above.

Exposure classes	30 September 2020		31 December 2019	
	RWAs and RWA density		RWAs and RWA density	
	RWAs	RWA density	RWAs	RWA density
	€000	%	€000	%
Central governments or central banks	348,944	5.1	382,591	6.2
Regional government or local authorities	657	1.2	542	0.8
Public sector entities	3	-	9	-
Institutions	175,665	23.4	179,648	29.6
Corporates	2,970,094	90.0	3,353,301	99.5
Retail	937,431	71.2	960,387	71.2
Secured by mortgages on immovable property	1,246,980	36.4	1,180,406	37.5
Exposures in default	1,581,480	103.8	2,053,619	107.3
Higher-risk categories	1,199,227	150.0	1,404,849	150.0
Covered bonds	16,586	10.0	16,333	10.0
Collective investment undertakings (CIUs)	2,774	74.5	205	100.0
Equity	101,017	188.8	80,275	237.9
Other items	1,915,512	97.2	1,876,882	94.1
Total	**10,496,370**	**51.2**	**11,489,047**	**57.1**

The decrease in the overall RWA density is mainly derived from: (a) a change in the balance sheet mix, i.e. balances in comparatively higher risk asset classes (customer advances, other assets and properties held for sale) have decreased and balances in lower risk asset classes (cash and balances with central banks) have increased; (b) increased NPE curing/settlements/repayments; and (c) the decreased RWA density in each individual exposure class, which in turn was mainly driven by the implementation of the new SME supporting factor under CRR II amendment in June 2020, which expanded the population of performing exposures that benefit from lower risk weights in the "Corporate" and "Secured with mortgages on immovable property" exposure classes and also revised the discount factor applied to such exposures, resulting in a reduction of RWAs of approximately €380 million. The decrease in the deferred tax credit amounts with risk weight at 100% improved the RWA density of "Central governments or central banks". Similarly, the improved external ratings and residual maturities contributed to the reduced RWA density of "Institutions" and "Collective investment undertakings (CIUS)" exposure classes. The improvement in "Exposures in default" was driven from increased provision coverage and reduction in the amount of NPEs, whilst the increase in the RWA density of "Other items" resulted from increased balances of properties held for sale that have been on-boarded after a failed auction or that are held for more than 10 years and, following SREP recommendation, their risk weight has been set at a level higher than the normal 100% risk weight. All other movements are in line with the balance sheet movements.

F. Notes (continued)

F.13 Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP)

The Group prepares the ICAAP and ILAAP reports annually. Both reports for 2019 were approved by the Board of Directors and submitted to the ECB on 30 April 2020. Due to the timing of the two reports, the business plans and ICAAP and ILAAP stress scenarios have not been updated to reflect the impact of the COVID-19 in line with relevant supervisory communication on this issue; however the COVID-19 preliminary estimated impact on capital and liquidity (based on scenarios) has been commented in the ICAAP and ILAAP reports under a separate section.

Based on the end of December 2019 ICAAP, BOC PCL has sufficient capital throughout the three-year horizon to enable it to comply with all regulatory ratios, both in the base and adverse scenario, under the normative approach. Under the economic perspective, a small capital shortfall arises in the adverse scenario, in 2022, which however can be neutralised by available mitigants.

The Group has prepared a review of its ICAAP, with reference date 31 March 2020 and 30 June 2020, based on the reforecast plan, submitted to the Board of Directors in June 2020. Both reviews indicate that BOC PCL has sufficient capital throughout the three-year horizon to enable it to comply with all regulatory ratios, both in the base and adverse scenario, under the normative approach. Under the economic perspective, capital shortfalls arise in the adverse scenario, in 2021 and 2022. Economic capital is closely monitored to ensure sufficient mitigating actions are in place to be used in case such a scenario is realised.

The Group will also undertake a quarterly review of its ICAAP results as at the end of September 2020, considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration.

The Group also undertakes a quarterly review for the ILAAP through quarterly stress tests submitted to the ALCO and the Risk Committee of the Board of Directors. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. Any material changes since the year-end are assessed in terms of liquidity. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows. The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate.

The ECB, as part of its supervisory role, has been conducting the SREP and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things, the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of the SREP is for the ECB to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group. Additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-ons capital requirements are a point-in-time assessment and therefore subject to change over time.

The Group is to participate in the ECB SREP stress test of 2021. Following the postponement of the EU-wide Stress Test Exercise of 2020 due to the outbreak of COVID–19 and its global spread, the EBA has announced the 2021 EU-wide stress test that will be launched in January 2021 and the results will be published by 31 July 2021. While the exercise is coordinated by the EBA, it is carried out in cooperation with the ECB, the European Systemic Risk Board (ESRB), the European Commission and the Competent Authorities (CAs) from all relevant national jurisdictions.

G. Definitions & Explanations

Reconciliations of Alternative Performance Measures

Reconciliations between the calculations of non-IFRS performance measures and the most directly comparable IFRS measures which allow for the comparability of the underlying basis to statutory information are disclosed below:

1. (a) Reconciliation of Gross loans and advances to customers

	30 September 2020	31 December 2019
	€000	€000
Gross loans and advances to customers (as defined below)	**12,309,248**	12,821,838
Reconciling items:		
Residual fair value adjustment on initial recognition *(Note 1 below)*	**(176,796)**	(201,999)
Loans and advances to customers classified as held for sale (Section F.4)	**(888,018)**	(173,881)
Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale	**(31,144)**	(11,083)
Loans and advances to customers measured at fair value through profit and loss (Section F.3)	**(298,508)**	(369,293)
Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss	**(35,154)**	(57,436)
Gross loans and advances to customers at amortised cost as per section F.3	**10,879,628**	12,008,146

1. (b) Reconciliation of Loans and advances to customers classified as held for sale

	30 September 2020	31 December 2019
	€000	€000
Loans and advances to customers classified as held for sale as per the underlying basis	**919,162**	184,964
Reconciling items:		
Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale	**(31,144)**	(11,083)
Loans and advances to customers classified as held for sale as per Section F.4	**888,018**	173,881

G. Definitions & Explanations (continued)

Reconciliations of Alternative Performance Measures (continued)

2. (a) Reconciliation of Allowance for expected credit losses on loans and advances to customers (ECL)

	30 September 2020	31 December 2019
	€000	€000
Allowance for expected credit losses on loans and advances to customers (as defined below)	**1,933,309**	2,096,180
Reconciling items:		
Residual fair value adjustment on initial recognition *(Note 1 below)*	**(176,796)**	(201,999)
Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss	**(35,154)**	(57,436)
Allowance for expected credit losses on loans and advances to customers classified as held for sale (Section F.6)	**(538,637)**	(147,952)
Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale	**(31,144)**	(11,083)
Provisions for financial guarantees and commitments	**(20,160)**	(22,112)
Allowance for ECL for impairment of loans and advances to customers as per section F.3	**1,131,418**	1,655,598

2. (b) Reconciliation of Allowance for expected credit losses on loans and advances to customers classified as held for sale (ECL)

	30 September 2020	31 December 2019
	€000	€000
Allowance for expected credit losses on loans and advances to customers classified as held for sale as per the underlying basis	**569,781**	159,035
Reconciling items:		
Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale	**(31,144)**	(11,083)
Allowance for ECL for impairment of loans and advances to customers classified as held for sale as per section F.6	**538,637**	147,952

G. Definitions & Explanations (continued)

Reconciliations of Alternative Performance Measures (continued)

3. Reconciliation of NPEs

	30 September 2020	31 December 2019 (restated)
	€000	€000
NPEs (as defined below and as per Section F.8)	**3,237,580**	3,879,508
Reconciling items:		
Loans and advances to customers (NPEs) classified as held for sale *(Note 2 below)*	**(868,220)**	(172,880)
Residual fair value adjustment on initial recognition on loans and advances to customers (NPEs) classified as held for sale *(Note 3 below)*	**(31,437)**	(11,096)
Loans and advances to customers measured at fair value through profit and loss (NPEs)	**(117,285)**	(144,866)
POCI (NPEs) *(Note 4 below)*	**(318,475)**	(511,933)
Residual fair value adjustment on initial recognition on loans and advances to customers (NPEs) classified as Stage 3	**(14,544)**	(16,516)
Stage 3 gross loans and advances to customers at amortised cost as per section F.5	**1,887,619**	3,022,217
NPE ratio		
NPEs (as per table above) (€000)	**3,237,580**	3,879,508
Gross loans and advances to customers (as per table above) (€000)	**12,309,248**	12,821,838
Ratio of NPE/Gross loans (%)	**26.3%**	30.3%

Note 1: The fair value adjustment on initial recognition relates mainly to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the residual of the fair value adjustment on initial recognition as at each balance sheet date is not presented within the gross balances of loans and advances as per the statutory basis. This is applied throughout.

Note 2: Gross loans at amortised cost after residual fair value adjustment on initial recognition classified as held for sale include an amount of €734,622 thousand Stage 3 loans (31 December 2019: €150,206 thousand Stage 3 loans) and an amount of €133,598 thousand POCI – Stage 3 loans (out of a total of €133,924 thousand POCI loans) (31 December 2019: €22,674 thousand POCI – Stage 3 loans (out of a total of €22,679 thousand POCI loans)) as disclosed in Section F.5.

Note 3: Residual fair value adjustment on initial recognition of loans and advances to customers classified as held for sale includes an amount of €5,485 thousand for Stage 3 loans (31 December 2019: €3,402 thousand for Stage 3 loans) and an amount of €25,952 thousand for POCI – Stage 3 loans (31 December 2019: €7,694 thousand for POCI – Stage 3 loans) as disclosed in Section F.5.

Note 4: Gross loans and advances to customers at amortised cost before residual fair value adjustment on initial recognition include an amount of €318,475 thousand POCI – Stage 3 loans (out of a total of €430,276 thousand POCI loans) (31 December 2019: €511,933 thousand POCI – Stage 3 loans (out of a total of €627,212 thousand POCI loans)) as disclosed in Section F.5.

G. Definitions & Explanations (continued)

Ratios Information

1. Net Interest Margin

Reconciliation of the various components of net interest margin from the underlying basis to the statutory basis is provided below:

	Nine months ended 30 September	
	2020	2019
1.1. Reconciliation of Net interest income	**€000**	€000
Net interest income as per the underlying basis	**249,875**	260,047
Reclassifications for:		
Net interest income relating to the Helix portfolio, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis	**-**	33,962
Net interest income as per the Unaudited Interim Consolidated Income Statement	**249,875**	294,009
Net interest income (annualised)	**333,775**	347,682

1.2. Interest earning assets	**30 September 2020**	30 June 2020	31 March 2020	31 December 2019
	€000	€000	€000	€000
Cash and balances with central banks	**5,506,401**	5,276,398	4,398,781	5,060,042
Loans and advances to banks	**529,393**	621,960	455,284	320,881
Loans and advances to customers	**10,046,718**	10,104,240	10,596,536	10,721,841
Loans and advances to customers held for sale	**349,381**	361,652	23,700	25,929
Investments				
Debt securities	**1,824,720**	1,804,290	1,781,992	1,738,007
Less: Investments which are not interest bearing	**(19,819)**	(23,887)	(21,496)	(23,593)
Total interest earning assets	**18,236,794**	18,144,653	17,234,797	17,843,107
1.3. Quarterly average interest earning assets (€000)				
- as at 30 September 2020	**17,864,837**			
- as at 30 September 2019	18,102,604			

2. Operating profit return on average assets

The various components used in the determination of the operating profit return on average assets are provided below:

	30 September 2020	30 June 2020	31 March 2020	31 December 2019
	€000	€000	€000	€000
Total assets used in the computation of the operating profit return on average assets/per the Unaudited Interim Consolidated Balance Sheet	**21,515,542**	21,370,808	20,430,792	21,122,822

	30 September 2020	30 September 2019
	€000	€000
Annualised operating profit	**203,048**	251,676
Quarterly average total assets	**21,109,991**	21,705,559

G. Definitions & Explanations (continued)

Advisory and other restructuring costs	Comprise mainly: fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities.
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprises (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities, and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 fully loaded (FL) ratio	The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Contribution to DGF	Relates to the contribution made to the Deposit Guarantee Fund.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service	The latest data from the Statistical Service of the Republic of Cyprus, Cyprus Statistical Service, was published on 13 November 2020.
Digital transactions ratio	This is the ratio of the number of digital transactions performed by individuals and legal entity customers to the total number of transactions. Transactions include deposits, withdrawals, internal and external transfers. Digital channels include mobile, browser and ATMs.
Digitally engaged customers ratio	This is the ratio of digitally engaged individual customers to the total number of individual customers. Digitally engaged customers are the individuals who use the digital channels of the Bank (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard.
ECB	European Central Bank
Gross loans	Gross loans are reported before the residual fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €243 mn at 30 September 2020 (compared to €248 mn at 30 June 2020 and €271 mn at 31 December 2019). Additionally, gross loans include loans and advances to customers classified and measured at fair value through profit and loss adjusted for the aggregate fair value adjustment of €334 mn at 30 September 2020 (compared to €331 mn at 30 June 2020 and €427 mn at 31 December 2019).
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or the "Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries.
Legacy exposures	Legacy exposures are exposures relating to (i) Restructuring and Recoveries Division (RRD), (ii) Real Estate Management Unit (REMU), and (iii) non-core overseas exposures
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.

G. Definitions & Explanations (continued)

Loan credit losses (PL) (previously 'Provision charge')	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL.
Loan credit losses charge (previously 'Provisioning charge') (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the annualised 'loan credit losses' (as defined) divided by average gross loans (the average balance is calculated as the average of the opening balance and the closing balance).
Market Shares	Both deposit and loan market shares are based on data from the CBC. The Bank is the single largest credit provider in Cyprus with a market share of 41.5% at 30 September 2020, compared to 41.7% at 30 June 2020, 41.0% at 31 March 2020, 41.1% at 31 December 2019, 40.8% at 30 September 2019, 41.3% at 30 June 2019, 46.7% at 31 March 2019, 45.4% at 31 December 2018 and as at 30 September 2018, 38.6% at 30 June 2018 and 37.4% at 31 March 2018. The market share on loans was affected as at 30 June 2019 following the derecognition of the Helix portfolio upon the completion of Project Helix announced on 28 June 2019. The market share on loans was affected during the quarter ended 31 March 2019 following a decrease in total loans in the banking sector of €1 bn, mainly attributed to reclassification, revaluation, exchange rate and other adjustments (CBC). The market share on loans was affected as at 30 September 2018 following a decrease in total loans in the banking sector, mainly attributed to €6 bn non-performing loans of Cyprus Cooperative Bank (CyCB) which remained to SEDIPES as a result of the agreement between CyCB and Hellenic Bank. The market share on loans was affected as at 30 June 2018 following a decrease in total loans in the banking sector of €2.1 bn, due to loan reclassifications, revaluations, exchange rate or other adjustments (CBC).
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the 'quarterly average interest earning assets' (as defined).
Net loans and advances to customers	Comprise gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding credit losses on off-balance sheet exposures).
Net loan to deposit ratio	Net loan to deposit ratio is calculated as gross loans (as defined) net of allowance for expected loan credit losses (as defined) divided by customer deposits.
Net Stable Funding Ratio (NSFR)	The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF), on the basis of Basel III standards. Its calculation is a SREP requirement. The EBA NSFR will be enforced as a regulatory ratio under CRR II in 2021.
New lending	New lending includes the average YTD change (if positive) for overdraft facilities.
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), Insurance income net of claims and commissions, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.

G. Definitions & Explanations (continued)

Non-performing exposures (NPEs)	According to the EBA standards and ECB's Guidance to Banks on Non-Performing Loans (published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions: (i) the borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due, (ii) defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy, (iii) material exposures as set by the CBC , which are more than 90 days past due, (iv) performing forborne exposures under probation for which additional forbearance measures are extended, and (v) performing forborne exposures under probation that present more than 30 days past due within the probation period. When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing. The NPEs are reported before the deduction of allowance for expected loan credit losses (as defined).
Non-recurring items	Non-recurring items as presented in the 'Consolidated Condensed Interim Income Statement – Underlying basis' relate to the following items, as applicable: (i) advisory and other restructuring costs - organic, (ii) restructuring costs – Voluntary Staff Exit Plan (VEP), (iii) Provisions/net loss relating to NPE sales, including restructuring expenses, (iv) Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates, and (v) Reversal of impairment of DTA and impairment of other tax receivables.
NPE coverage ratio (previously 'NPE Provisioning coverage ratio')	The NPE coverage ratio is calculated as the allowance for expected loan credit losses (as defined) over NPEs (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).
NPE sales	NPE sales refer to sales of NPE portfolios completed in each period and contemplated sale transactions, as well as potential further NPE sales, at each reporting date, irrespective of whether or not they met the held for sale classification criteria at the reporting dates. They include both Project Helix and Project Helix 2, as well as other portfolios.
Operating profit	Comprises profit before Total loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined).
Profit/(loss) after tax – organic (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined, except for the 'advisory and other restructuring costs – organic').
Project Helix	Project Helix refers to the sale of a portfolio of loans with a gross book value of €2.8 bn completed in June 2019. For further information please refer to section A.1.4 Loan portfolio quality.

G. Definitions & Explanations (continued)

Project Helix 2	Project Helix 2 refers to the portfolio of loans with a gross book value of €898 mn as at 30 June 2020 for which an agreement for sale was reached on 3 August 2020. For further information please refer to section A.1.4 Loan portfolio quality.
Quarterly average interest earning assets	This relates to the average of 'interest earning assets' as at the beginning and end of the relevant quarter. Average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Special levy	Relates to the special levy on deposits of credit institutions in Cyprus.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Total expenses	Total expenses comprise staff costs, other operating expenses and the special levy and contributions to the Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF). It does not include 'advisory and other restructuring costs-organic', or any restructuring costs relating to the Voluntary Staff Exit Plan, or any restructuring costs relating to NPE sales. 'Advisory and other restructuring costs-organic' amounted to €3 mn for 3Q2020 (compared to €3 mn for 2Q2020, €3 mn for 1Q2020 and €8 mn for 4Q2019). Restructuring costs relating to NPE sales amounted to Nil for 3Q2020 (compared to €1 mn for 2Q2020, €3 mn for 1Q2020 and €10 mn for 4Q2019). Restructuring costs relating to the Voluntary Staff Exit Plan amounted to €81 mn for 4Q2019.
Total income	Total income comprises net interest income and non-interest income (as defined).
Total loan credit losses, impairments and provisions	Total loan credit losses, impairments and provisions comprises loan credit losses (as defined), plus impairments of other financial and non-financial assets, plus provisions for litigation, claims, regulatory and other matters.
Underlying basis	This refers to the statutory basis after being adjusted for certain items as explained in the Basis of Presentation.
Write offs	Loans together with the associated loan credit losses are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, “BOC Holdings” or “the Company”, its subsidiary Bank of Cyprus Public Company Limited, the “Bank” or “BOC PCL”, and together with the Bank’s subsidiaries, the “Group”, for the nine months ended 30 September 2020.

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

Financial information presented in this announcement is being published for the purposes of providing an overview of the Group financial results for the nine months ended 30 September 2020. The financial information in this announcement does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2019, upon which the auditors have given an unqualified report, were published on 29 April 2020 and have been annexed to the annual return and delivered to the Registrar of Companies of Ireland. The Board of Directors approved the Group statutory financial statements for the nine months ended 30 September 2020 on 26 November 2020.

Statutory basis: Statutory information is set out on pages 32-59. However, a number of factors have had a significant effect on the comparability of the Group’s financial position and results. Accordingly, the results are also presented on an underlying basis.

Underlying basis: The statutory results are adjusted for certain items (as described on page 38) to allow a comparison of the Group’s underlying performance, as set out on pages 4-6.

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 nine months ended 30 September 2020 have been posted on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

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

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

Forward Looking Statements

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

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The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Bank of Cyprus Group operates through a total of 98 branches in Cyprus, of which 14 operate as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 3,577 staff worldwide. At 30 September 2020, the Group’s Total Assets amounted to €21.5 bn and Total Equity was €2.1 bn. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.