# Annual Financial Report 2022

Bank of Cyprus

**Contents** | **Page**

| | |
|---|---|
| **Board of Directors of Bank of Cyprus Public Company Limited** | Efstratios-Georgios Arapoglou<br>CHAIRMAN<br><br>Lyn Grobler<br>VICE-CHAIRPERSON<br><br>Panicos Nicolaou<br>Arne Berggren<br>Constantine Iordanou<br>Eliza Livadiotou<br>Ioannis Zographakis<br>Maria Philippou<br>Nicolaos Sofianos<br>Paula Hadjisotiriou |
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| **Legal Advisers as to matters of Irish Law** | Arthur Cox |
| **Legal Advisers as to matters of English and US Law** | Sidley Austin LLP |
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This document contains certain forward-looking statements which can usually be identified by terms used such as 'expect', 'should be', 'will be' and similar expressions or variations thereof or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Bank of Cyprus Group (the Group) near term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group's future results of operations, financial condition, expected impairment charges, the level of the Group's assets, liquidity, performance, prospects, anticipated growth, provisions, impairments, business strategies and opportunities. By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend upon circumstances, that will or may occur in the future. Factors that could cause actual business, strategy and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group include, but are not limited to: general economic and political conditions in Cyprus and other European Union (EU) Member States, interest rate and foreign exchange rate fluctuations, legislative, fiscal and regulatory developments and information technology, litigation and other operational risks, adverse market conditions, the impact of outbreaks, 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. The Russian invasion of Ukraine has led to heightened volatility across global markets and to the coordinated implementation of sanctions on Russia, Russian entities and nationals. The Russian invasion of Ukraine has caused significant population displacement, and if the conflict continues, the disruption will likely increase. The scale of the conflict and the extent of sanctions, as well as the uncertainty as to how the situation will develop, may have significant adverse effects on the market and macroeconomic conditions, including in ways that cannot be anticipated. This creates significantly greater uncertainty about forward-looking statements. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward-looking statements. The forward-looking statements made in this document are only applicable as at the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this document to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which any statement is based.

**Non-IFRS performance measures**

Bank of Cyprus Public Company Limited's (the 'Company') management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the Annual Financial Report as they enable the readers to identify a more consistent basis for comparing the Group's performance between financial periods and provide more detail concerning the elements of performance which management are directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which the operating targets are defined and performance is monitored by the Group's management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as the key measures of the 31 December position. Refer to 'Alternative Performance Measures Disclosures' on pages 474 to 487 of the Annual Financial Report for the year ended 31 December 2022 for further information, reconciliations with Consolidated Financial Statements and calculations of non-IFRS performance measures included throughout this document and their reconciliation to the most directly comparable IFRS measures.

The Annual Financial Report for the year ended 31 December 2022 is available on the Group's website www.bankofcyprus.com (Group/Investor Relations) (the Group's website).

# MANAGEMENT REPORT FOR THE YEAR

2022

The Board of Directors submits to the shareholders of Bank of Cyprus Public Company Limited ('the Company' or 'BOC PCL') their Management Report together with the audited Consolidated Financial Statements (Consolidated Financial Statements) and Financial Statements of the Company for the year ended 31 December 2022.

The Annual Financial Report relates to the Company and together with its subsidiaries the Group.

**Activities**

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

All Group companies and branches are set out in Note 51 to the Consolidated Financial Statements. The Group has established branches in Greece. There were no acquisitions of subsidiaries and no material disposals of subsidiaries during the year ended 31 December 2022. Information on Group companies and acquisitions and disposals during the year are detailed in Note 51 to the Consolidated Financial Statements.

## Group financial results on the underlying basis

The main financial highlights for the year ended 31 December 2022 are set out below:

### Unaudited Consolidated Income Statement on the underlying basis

| € million | 2022[1] | 2021[1,2] (restated) |
|---|---|---|
| Net interest income | **371** | 296 |
| Net fee and commission income | **192** | 172 |
| Net foreign exchange gains and net gains on financial instruments | **36** | 25 |
| Insurance income net of claims and commissions | **71** | 61 |
| Net gains from revaluation and disposal of investment properties and on disposal of stock of properties | **13** | 13 |
| Other income | **17** | 14 |
| **Total income** | **700** | 581 |
| Staff costs | **(190)** | (202) |
| Other operating expenses | **(153)** | (148) |
| Special levy on deposits and other levies/contributions | **(38)** | (36) |
| **Total expenses** | **(381)** | (386) |
| **Operating profit** | **319** | 195 |
| Loan credit losses | **(47)** | (66) |
| Impairments of other financial and non-financial assets | **(33)** | (36) |
| Provisions for pending litigations, regulatory and other matters (net of reversals) | **(11)** | 2 |
| **Total loan credit losses, impairments and provisions** | **(91)** | (100) |
| **Profit before tax and non-recurring items** | **228** | 95 |
| Tax | **(36)** | (5) |
| Profit attributable to non-controlling interests | **(3)** | (2) |
| **Profit after tax and before non-recurring items (attributable to the owners of the Company)** | **189** | 88 |
| Advisory and other restructuring costs-organic | **(11)** | (22) |
| **Profit after tax - organic (attributable to the owners of the Company)** | **178** | 66 |
| Provisions/net profit/(loss) relating to NPE sales[3] | **1** | (7) |
| Restructuring and other costs relating to NPE sales[3] | **(3)** | (16) |
| Restructuring costs - Voluntary Staff Exit Plan (VEP) | **(104)** | (16) |
| **Profit after tax (attributable to the owners of the Company)** | **72** | 27 |

[1] The financial information is derived from and should be read in conjunction with the accompanied Consolidated Financial Statements.
[2] Comparative information was restated following a reclassification of approximately €1 million loss relating to disposal/dissolution of subsidiaries and associates from 'Net foreign exchange gains and net gains/(losses) on financial instruments' to 'Other income'. More information is provided in Note 2.1 of the Consolidated Financial Statements.
[3] 'Provisions/net profit/(loss) relating to NPE sales' refer to the net profit/(loss) on transactions completed during the year, whilst 'Restructuring and other costs relating to NPE Sales' refer mainly to the costs relating to these trades.

**Group financial results on the underlying basis** (continued)

**Unaudited Consolidated Income Statement on the underlying basis** (continued)

| | **2022** | 2021 |
|---|---|---|
| **Key Performance Ratios**[4] | | |
| Net interest margin | **1.65%** | 1.45% |
| Cost to income ratio | **54%** | 66% |
| Cost to income ratio excluding special levy on deposits and other levies/contributions | **49%** | 60% |
| Operating profit return on average assets | **1.2%** | 0.8% |
| Basic earnings per share attributable to the owners of the Company (€ cent) | **0.75** | 0.29 |
| Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company (€ cent)[5] | **1.98** | 0.93 |
| Return on tangible equity (ROTE) after tax and before non-recurring items[6] | **11.4%** | 5.4% |
| Return on tangible equity (ROTE) | **4.3%** | 1.7% |

**Unaudited Consolidated Balance Sheet on the underlying basis**

| **€ million** | **2022**[7] | 2021[7] |
|---|---|---|
| Cash and balances with central banks | **9,567** | 9,231 |
| Loans and advances to banks | **205** | 292 |
| Debt securities, treasury bills and equity investments | **2,703** | 2,139 |
| Net loans and advances to customers | **9,953** | 9,836 |
| Net loans and advances to Group companies[8] | **9** | - |
| Stock of property | **1,041** | 1,112 |
| Investment properties | **85** | 118 |
| Other assets | **1,880** | 1,876 |
| Non-current assets and disposal groups held for sale | **-** | 359 |
| **Total assets** | **25,443** | 24,963 |
| Deposits by banks | **508** | 457 |
| Funding from central banks | **1,977** | 2,970 |
| Customer deposits | **18,998** | 17,531 |
| Debt securities in issue | **298** | 303 |
| Subordinated liabilities | **304** | 342 |
| Other liabilities | **1,254** | 1,281 |
| **Total liabilities** | **23,339** | 22,884 |
| **Shareholders' equity** | **1,862** | 1,837 |
| Other equity instruments | **220** | 220 |
| **Total equity excluding non-controlling interests** | **2,082** | 2,057 |
| Non-controlling interests | **22** | 22 |
| **Total equity** | **2,104** | 2,079 |
| **Total liabilities and equity** | **25,443** | 24,963 |

[4]Including the NPE portfolios classified as 'Non-current assets and disposal groups held for sale', where relevant.

[5]As of 30 June 2021, management monitors 'Basic earnings per share attributable to the owners of the Company' calculated using 'Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)', rather than 'Profit/(loss) after tax – organic (attributable to the owners of the Company)' which was previously the case, as management believes it is a more appropriate measure of monitoring recurring performance, as it excludes 'Advisory and other restructuring costs – organic' which do not relate to the underlying or recurring business of the Group.

[6]Return on tangible equity (ROTE) after tax and before non-recurring items' is calculated as the profit after tax and before non-recurring items divided by the quarterly average shareholders' equity minus intangible assets at each quarter end.

[7]The financial information is derived from and should be read in conjunction with the accompanied Consolidated Financial Statements.

[8]Net loans and advances to Group companies of €9 million as at 31 December 2022 (2021: nil) have been separately presented on the Consolidated Balance Sheet on the underlying basis since they relate to balances with Group companies and thus are not taken into consideration in the calculation of the relevant key ratios and metrics referring to loans and advances with customers throughout this Management Report.

**Group financial results on the underlying basis** (continued)

**Unaudited Consolidated Balance Sheet on the underlying basis** (continued)

| **Key Balance Sheet figures and ratios** | **2022** | 2021[9] |
|---|---|---|
| Gross loans and advances to customers (€ million) | **10,217** | 10,856 |
| Allowance for expected loan credit losses (€ million) | **282** | 792 |
| Customer deposits (€ million) | **18,998** | 17,531 |
| Loans to deposits ratio (net) | **52%** | 57% |
| NPE ratio | **4.0%** | 12.4% |
| NPE coverage ratio | **69%** | 59% |
| Leverage ratio | **7.5%** | 7.5% |
| **Capital ratios and risk weighted assets** | | |
| Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)[10] | **15.5%** | 15.1% |
| Total capital ratio | **20.6%** | 20.0% |
| Risk weighted assets (€ million) | **10,117** | 10,686 |

*Commentary on underlying basis*
The financial information presented above provides an overview of the Group financial results for the year ended 31 December 2022 on the 'underlying basis' which management believes best fits the true measurement of the performance and position of the Group, as this presents separately the exceptional and one-off (non-recurring) items. Reconciliations between the statutory basis and the underlying basis are included in section 'Unaudited Reconciliation of the Consolidated Income Statement for the year ended 31 December 2022 between the statutory and underlying basis' below and in 'Alternative Performance Measures Disclosures' of the Annual Financial Report for the year ended 31 December 2022, to facilitate the comparability of the underlying basis to the statutory information.

Certain figures in this Management report have been rounded in million to present them more clearly. Percentages presented throughout the Management Report are calculated on the underlying figures in thousands and so may differ from the percentage calculated on the rounded numbers presented. Similarly, capital ratios presented have been rounded for ease of presentation to one decimal place.

The below definitions are used in the commentary that follows the presentation of the underlying basis financial information:

NPE sales: NPE sales refer to sales of NPE portfolios completed in the year, as well as to sale transactions for which an agreement existed at the end of the year.

Project Helix 3: Project Helix 3 refers to the agreement the Group reached in November 2021 with funds affiliated with Pacific Investment Management Company LLC ('PIMCO'), for the sale of a portfolio of loans with gross book value of €555 million (of which €551 million relate to non-performing exposures), as well as real estate properties with book value of €88 million as at 30 September 2022. Project Helix 3 was completed in November 2022.

[9] Including the NPE portfolios classified as 'Non-current assets and disposal groups held for sale', where relevant.
[10] The CET1 fully loaded ratio as at 31 December 2022 amounts to 14.7%, compared to 13.7% and 14.3% pro forma for HFS as at 31 December 2021.

**Group financial results on the underlying basis** (continued)

**Unaudited Consolidated Balance Sheet on the underlying basis** (continued)

Project Sinope: Project Sinope refers to the agreement the Group reached in December 2021 for the sale of a portfolio of loans with gross book value of €12 million, as well as properties in Romania with carrying value of €0.6 million, as at 31 December 2021, the reference date. Project Sinope was completed in August 2022.

Any references to pro forma figures and ratios as at 31 December 2021 refer to Projects Helix 3 and Sinope (as explained in the paragraphs above). Where numbers are provided on a pro forma basis, this is stated and referred to as ‘Pro forma for held for sale’ or ‘Pro forma for HFS’.

Further details of the Project Helix 3 and Project Sinope transactions are provided in ‘Loan portfolio quality’ under the 'Balance Sheet Analysis' section below.

**Unaudited Reconciliation of the Consolidated Income Statement for the year ended 31 December 2022 between the statutory and underlying basis**

| € million | Underlying basis | NPE Sales | Other | Statutory basis |
|---|---|---|---|---|
| Net interest income | 371 | - | - | 371 |
| Net fee and commission income | 192 | - | - | 192 |
| Net foreign exchange gains and net gains on financial instruments | 36 | - | 5 | 41 |
| Net gains on derecognition of financial assets measured at amortised cost | - | - | 5 | 5 |
| Insurance income net of claims and commissions | 71 | - | - | 71 |
| Net gains from revaluation and disposal of investment properties and on disposal of stock of properties | 13 | - | - | 13 |
| Other income | 17 | - | - | 17 |
| **Total income** | **700** | **-** | **10** | **710** |
| **Total expenses** | **(381)** | **(3)** | **(126)** | **(510)** |
| **Operating profit** | **319** | **(3)** | **(116)** | **200** |
| Loan credit losses | (47) | 1 | 46 | - |
| Impairments of other financial and non-financial assets | (33) | - | 33 | - |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | (11) | - | 11 | - |
| Credit losses on financial assets and impairment net of reversals of non-financial assets | - | - | (89) | (89) |
| **Profit before tax and non-recurring items** | **228** | **(2)** | **(115)** | **111** |
| Tax | (36) | - | - | (36) |
| Profit attributable to non-controlling interests | (3) | - | - | (3) |
| **Profit after tax and before non-recurring items (attributable to the owners of the Company)** | **189** | **(2)** | **(115)** | **72** |
| Advisory and other restructuring costs - organic | (11) | - | 11 | - |
| **Profit after tax - organic* (attributable to the owners of the Company)** | **178** | **(2)** | **(104)** | **72** |
| Provisions/net profit relating to NPE sales | 1 | (1) | - | - |
| Restructuring and other costs relating to NPE sales | (3) | 3 | - | - |
| Restructuring costs – Voluntary Staff Exit Plans (VEP) | (104) | - | 104 | - |
| **Profit after tax (attributable to the owners of the Company)** | **72** | **-** | **-** | **72** |

*This is the profit after tax (attributable to the owners of the Company), before the provisions/net profit relating to NPE sales, related restructuring and other costs, and restructuring costs related to Voluntary Staff Exit Plans (VEP).

**Group financial results on the underlying basis** (continued)

**Unaudited Reconciliation of the Consolidated Income Statement for the year ended 31 December 2022 between the statutory and underlying basis** (continued)

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

*NPE sales*

- Total expenses under the statutory basis include restructuring costs of €3 million relating to the agreements for the sale of portfolios of NPEs and are presented within 'Restructuring and other costs relating to NPE sales ' under the underlying basis.

- Loan credit losses under the statutory basis include a reversal of loan credit losses relating to Project Helix 3 of approximately €1 million and are disclosed within 'Provisions/net profit relating to NPE sales' under the underlying basis.

*Other reclassifications*

- Net gains on loans and advances to customers at FVPL of €4 million included in 'Loan credit losses' under the underlying basis are included in 'Net gains on financial instruments' under the statutory basis. Their classification under the underlying basis is done to align their presentation with the loan credit losses on loans and advances to customers at amortised cost.

- 'Net gains on derecognition of financial assets measured at amortised cost' of €5 million under the statutory basis comprise of the below items which are reclassified accordingly under the underlying basis as follows:
  - €6 million net gains on derecognition of loans and advances to customers included in 'Loan credit losses' under the underlying basis as to align to the presentation of the loan credit losses arising from loans and advances to customers.
  - Net losses on derecognition of debt securities measured at amortised cost of approximately €1 million included in 'Net foreign exchange gains and net gains on financial instruments' under the underlying basis in order to align their presentation with the gains/(losses) arising on financial instruments.

- Provisions for pending litigations, regulatory and other provisions (net of reversals) amounting to approximately €11 million included in 'Total expenses' under the statutory basis, are separately presented under the underlying basis in conjunction with loan credit losses and impairments.

- Advisory and other restructuring costs of approximately €11 million included in 'Other operating expenses' under the statutory basis are separately presented under the underlying basis since they comprise mainly fees to external advisors in relation to the transformation programme and other strategic projects of the Group.

- Total expenses under the statutory basis include restructuring costs relating to Voluntary Staff Exit Plans (VEP) of €104 million and are separately presented under the underlying basis, since they represent one-off items.

- 'Credit losses on financial assets' and 'Impairment net of reversals of non-financial assets' under the statutory basis include: i) credit losses to cover credit risk on loan and advances to customers of €56 million, which are included in 'Loan credit losses' under the underlying basis, and ii) credit losses of other financial instruments of €3 million and impairment net of reversals of non-financial assets of €30 million which are included in 'Impairments of other financial and non-financial assets' under the underlying basis, as to be presented separately from loan credit losses.

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis**

**Capital Base**

Total equity excluding non-controlling interests totalled €2,082 million as at 31 December 2022 compared to €2,057 million at 31 December 2021. Shareholders' equity totalled €1,862 million as at 31 December 2022 compared to €1,837 million at 31 December 2021.

The Common Equity Tier 1 capital (CET1) ratio on a transitional basis stood at 15.5% as at 31 December 2022, compared to 15.1% as at 31 December 2021 (and 15.7% pro forma for held for sale portfolios (referred to as 'pro forma for HFS')). During the year ended 31 December 2022, CET1 ratio was positively affected by pre-provision income and the reduction in risk weighted assets (mainly as a result of the completion of Project Helix 3), and negatively affected mainly by the phasing-in of IFRS 9 and other transitional arrangements on 1 January 2022, provisions and impairments, the cost of the Voluntary Staff Exit Plan, the payment of AT1 coupon, the movement of the fair value through OCI reserves and other movements.

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, with the impact being fully phased-in (100%) by 1 January 2023. The final phasing-in of the impact of the impairment amount from the initial application of IFRS 9 is approximately 65 bps on the CET1 ratio on 1 January 2023. In addition, a prudential charge in relation to the onsite inspection on the value of the Group's foreclosed assets is being deducted from own funds since June 2021, the impact of which is 26 bps on Group's CET1 ratio as at 31 December 2022, decreased from 32bps on 31 December 2021 mainly due to impairment recognised during the year.

The CET1 ratio on a fully loaded basis amounted to 14.7% as at 31 December 2022 compared to 13.7% as at 31 December 2021 (and 14.3% pro forma for HFS).

The CET1 ratio including the final impact of IFRS 9 phasing-in on 1 January 2023 and also pro-forma for the €50 million dividend relating to IFRS 17 (refer to section further below), distributed to BOC PCL in February 2023 is estimated at 15.3%.

The Total Capital ratio stood at 20.6% as at 31 December 2022, compared to 20.0% as at 31 December 2021 (and 20.8% pro forma for HFS).

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

The Group's minimum phased-in CET1 capital ratio requirement as at 31 December 2022 was set at 10.10% comprising a 4.50% Pillar I requirement, a 1.83% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.25% and the Countercyclical Buffer (CcyB) of 0.02%. The Group's minimum phased-in Total Capital ratio requirement as at 31 December 2022 was set at 15.03% comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a 3.26% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.25% and the CcyB of 0.02%. The Pillar II included an add-on of 0.26% relating to the ECB's prudential provisioning expectations as per the 2018 ECB Addendum and subsequent ECB announcements and press release in July 2018 and August 2019. Pillar II add-on capital requirements derive from the SREP, which is a point in time assessment, and are therefore subject to change over time. The ECB had also provided revised lower non-public guidance for an additional Pillar II CET1 buffer (P2G) for 2022.

BOC PCL has been designated as an Other Systemically Important Institution (O-SII) by the Central Bank of Cyprus (CBC) in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, and since November 2021 the O-SII buffer has been revised to 1.50%. This buffer is being phased-in gradually, having started from 1 January 2019 at 0.50%. The O-SII buffer as at 31 December 2022 stood at 1.25% and has been fully phased-in on 1 January 2023.

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

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis** (continued)

**Capital Base** (continued)

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

The Group's minimum phased-in CET1 capital ratio and Total Capital ratio requirements were reduced when disregarding the phasing-in of the Other Systemically Important Institution Buffer. The Group's minimum phased-in CET1 capital ratio is set at 10.25%, comprising a 4.50% Pillar I requirement, a 1.73% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of 0.02%. The Group's minimum phased-in Total Capital ratio requirement is set at 15.10%, comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a 3.08% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of 0.02%. The ECB has also maintained the non-public guidance for an additional Pillar II CET1 buffer (P2G) unchanged.

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus of each licensed credit institution incorporated in Cyprus. The new rate of 0.50% must be observed as from 30 November 2023. Based on the above, the CcyB for the Group is expected to increase.

Based on the SREP decision, the Bank of Cyprus Holdings Public Limited Company ('BOCH') and BOC PCL were under a regulatory prohibition for equity dividend distribution and hence no dividends were declared or paid during 2021-2022. 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 BOCH or BOC PCL. Based on the final 2021 SREP Decision, the previous restriction on variable pay was lifted.

Following the 2022 SREP decision effective from 1 January 2023, the equity dividend distribution prohibition was lifted for both BOCH and BOC PCL, with any dividend distribution being subject to regulatory approval.

**Other equity instruments**

At 31 December 2022, the Group's other equity instruments amounted to €220 million, flat compared to the prior year, and relate to Additional Tier 1 Capital Securities (the 'AT1 securities').

The AT1 securities constitute unsecured and subordinated obligations of the Company. They carry a coupon of 12.50% per annum, payable semi-annually in arrears and resettable every five years. The AT1 securities are perpetual and can be redeemed at the option of the Company on the fifth anniversary of the issue date (i.e., 19 December 2023) and each subsequent fifth anniversary, subject to applicable regulatory consents. If the AT1 securities are not called, the coupon will reset on the fifth anniversary of the issue date (i.e., 19 December 2023).

The Group continues to monitor opportunities for the optimisation of its capital position.

**Voluntary Staff Exit Plan**

In July 2022, the Group completed a Voluntary Staff Exit Plan, resulting in a negative impact of approximately 95 bps both on the Group's CET1 and Total Capital ratios as at 30 September 2022. For further information please refer to 'Total expenses' under the 'Income Statement Analysis' section below.

**Project Helix 3**

In November 2022, Project Helix 3 was completed resulting in a positive capital impact of approximately 50 bps on the Group's CET1 ratio mainly from the release of risk weighted assets on completion. For further information please refer to section 'Loan portfolio quality'.

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis** (continued)

**Capital Base** (continued)

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

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

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

In anticipation of modifications to the Law, the Group has in prior years acknowledged that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The Group estimates that such fees could range up to approximately €5 million per year (for each tax year in scope i.e. since 2018) although the Group understands that such fee may fluctuate annually as to be determined by the Ministry of Finance. An amount of €4.8 million was recorded during the year ended 31 December 2022 in relation to the annual guaranteed fee for year 2022.

**Regulations and Directives**

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

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

**Bank Recovery and Resolution Directive (BRRD)**

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

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

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis** (continued)

**Regulations and Directives** (continued)

**Bank Recovery and Resolution Directive (BRRD)** (continued)

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

The MREL ratio of BOC PCL as at 31 December 2022, calculated according to the SRB's eligibility criteria currently in effect and based on BOC PCL's internal estimate, stood at 21.4% of risk weighted assets (RWA) and at 10.1% of LRE. As at 1 January 2023, the MREL ratio stood at 20.5% of RWAs and 9.8% of LRE, calculated on the same basis. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, which stands at 3.77% since 1 January 2022 and is expected to increase to 4.02% on 1 January 2023 and will further increase on 30 November 2023 following increase in CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus as announced by the CBC. Throughout the Annual Financial Report, the MREL ratios as at 31 December 2022 include audited profits for the year ended 31 December 2022.

BOC PCL will continue to evaluate opportunities to advance the build-up of its MREL liabilities.

**Funding and Liquidity**

**Funding**

***Funding from Central Banks***
At 31 December 2022, BOC PCL's funding from central banks amounted to €1,977 million, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III, compared to €2,970 million as at 31 December 2021.

BOC PCL had borrowed an overall amount of €3 billion under TLTRO III by June 2021, despite its comfortable liquidity position, given the favourable borrowing terms, in combination with the relaxation of collateral requirements. Following the changes in the terms of the TLTRO III announced by the ECB in October 2022, and given BOC PCL's strong liquidity position, BOC PCL proceeded with the repayment of €1 billion TLTRO III funding in December 2022.

BOC PCL exceeded the benchmark net lending threshold in the period 1 March 2020 - 31 March 2021 and qualified for the beneficial rate of -1% for the period from June 2020 to June 2021. The NII benefit from its TLTRO III borrowing for the period from June 2020 to June 2021 stood at approximately €7 million and was recognised over the respective period in the income statement.

In addition, BOC PCL exceeded the benchmark net lending threshold in the period 1 October 2020 - 31 December 2021 and qualified for a beneficial rate for the period from June 2021 to June 2022. The NII benefit from its TLTRO III borrowing for the period from June 2021 to June 2022 stood at approximately €15 million and was recognised over the respective period in the income statement.

The Group recognised an additional net NII benefit of approximately €8 million from the TLTRO III borrowing for the period 24 June 2022 to 22 November 2022, of which approximately €5 million was recognised in the income statement during the fourth quarter of 2022.

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis** (continued)

**Funding and Liquidity** (continued)

**Funding** (continued)

***Deposits***
Customer deposits totalled €18,998 million at 31 December 2022, compared to €17,531 million at 31 December 2021, increased by 8% since the previous year end.

BOC PCL's deposit market share in Cyprus reached 37.2% as at 31 December 2022, compared to 34.8% as at 31 December 2021. Customer deposits accounted for 75% of total assets and 81% of total liabilities at 31 December 2022 (compared to 70% of total assets and 77% of total liabilities at 31 December 2021).

The net loans to deposits (L/D) ratio stood at 52% as at 31 December 2022, compared to 57% as at 31 December 2021 on the same basis, reflecting the increase in customer deposits in the year and the derecognition of Helix 3 portfolio following completion.

***Subordinated liabilities***
At 31 December 2022, the carrying amount of the Group's subordinated liabilities (including accrued interest) amounted to €304 million, compared to €342 million at 31 December 2021, and relate to unsecured subordinated Tier 2 Capital Notes ('T2 Notes').

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

***Debt securities in issue***
At 31 December 2022, the carrying amount of the Group's debt securities in issue (including accrued interest) amounted to €298 million, compared to €303 million at 31 December 2021, and relate to senior preferred notes (the 'SP Notes').

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

**Liquidity**

At 31 December 2022, the Group Liquidity Coverage Ratio (LCR) stood at 291%, compared to 298% at 31 December 2021, well above the minimum regulatory requirement of 100%. The LCR surplus as at 31 December 2022 amounted to €7.2 billion, compared to €6.3 billion at 31 December 2021, well positioned to benefit from further interest rate increases. The increase in liquidity surplus during the year ended 31 December 2022 reflects primarily the increase in customer deposits and the cash consideration received with Helix 3 completion.

At 31 December 2022, the Group Net Stable Funding Ratio (NSFR) stood at 168%, compared to 147% at 31 December 2021, well above the minimum regulatory requirement of 100%.

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis** (continued)

**Loans and advances to customers**

Group gross loans totalled €10,217 million at 31 December 2022, compared to €10,856 million at 31 December 2021, (inclusive of those classified as held for sale), reduced by 6% since the beginning of the year attributed mainly to the completion of Project Helix 3.

New lending granted in Cyprus reached €2,092 million during the year ended 31 December 2022, compared to €1,792 million for the year ended 31 December 2021, up by 17% yoy, whilst maintaining strict lending criteria. The yearly increase is driven by the increase in lending activity across all sectors, with corporate being the main driver.

At 31 December 2022, the Group net loans and advances to customers totalled €9,953 million, compared to €9,836 million at 31 December 2021, excluding those classified as held for sale as at 31 December 2021, increased by 1% since the beginning of the year.

BOC PCL is the largest credit provider in Cyprus with a market share of 40.9% at 31 December 2022, compared to 38.8% at 31 December 2021, an increase compared to prior year despite the derecognition of Helix 3 portfolio following completion.

**Loan portfolio quality**

The Group has continued to make steady progress across all asset quality metrics. As the balance sheet de-risking is largely complete, the Group's priorities remain unchanged; maintaining high quality new lending with strict underwriting standards and preventing asset quality deterioration following the ongoing macroeconomic uncertainty.

The loan credit losses totalled €47 million (excluding 'Provisions/net (loss)/profit relating to NPE sales') for the year ended 31 December 2022, compared to €66 million for the year ended 31 December 2021. Further details regarding loan credit losses are provided in section 'Profit before tax and non-recurring items' under the 'Income Statement Analysis' section below.

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

**Non-performing exposures reduction**

During 2022 non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €932 million to €411 million at 31 December 2022 (compared to €1,343 million at 31 December 2021). The reduction during the year ended 31 December 2022 is mainly driven by the completion of Project Helix 3 (of €551 million as at 30 September 2022) and net organic reduction taken place in the year.

As a result, the NPEs account for 4.0% of gross loans as at 31 December 2022, compared to 12.4% as at 31 December 2021.

The NPE coverage ratio stands at 69% at 31 December 2022, compared to 59% as at 31 December 2021. When taking into account tangible collateral at fair value, NPEs are fully covered.

**Group financial results on the underlying basis** (continued)

**Balance Sheet Analysis** (continued)

**Loan portfolio quality** (continued)

**Project Helix 3**

In November 2022, the Group completed Project Helix 3, that refers to the sale of a portfolio of loans with a gross book value of €555 million (of which €551 million relate to non-performing exposures), as well as real estate properties with a book value of €88 million as at 30 September 2022, to funds managed by Pacific Investment Management Company LLC, the agreement for which was announced in November 2021.

The gross consideration amounted to approximately €366 million (including deposit received), reflecting adjustments resulting from, inter alia, loan repayments received on the Portfolio since the reference date of 31 May 2021.

Project Helix 3 represented a milestone in the successful delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs with the NPE ratio reducing below 5%.

**Project Sinope**

In December 2021, BOC PCL entered into an agreement for the sale of a portfolio of NPEs, with a contractual balance of €146 million and a gross book value of €12 million as at 31 December 2021, as well as properties in Romania with carrying value €0.6 million as at 31 December 2021 (known as 'Project Sinope'). Project Sinope was completed in August 2022.

Overall, since the peak in 2014 and following the completion of Helix 3, the stock of NPEs has been reduced by €14.6 billion or 97% to €0.4 billion and the NPE ratio by 59 percentage points, from 63% to 4%.

**Fixed income portfolio**

Fixed income portfolio amounts to €2,500 million as at 31 December 2022, compared to €1,925 million as at 31 December 2021, increased by 30% since the beginning of the year. The portfolio represents 10% of total assets and comprises €2,046 million (82%) carrying value measured at amortised cost and €454 million (18%) at fair value through other comprehensive income ('FVOCI').

During the year ended 31 December 2022 the Group recognised fair value losses of approximately €10 million directly to Group's equity for the fixed income portfolio measured at FVOCI.

The fixed income portfolio measured at amortised cost is held to maturity and therefore no fair value gains/losses are recognised in the Group's income statement or equity. This bond portfolio has low average duration of approximately two years and high average rating at A2 or at Aa3 when Cyprus government bonds are excluded. The fair value of the amortised cost fixed income portfolio as at 31 December 2022 amounts to €1,953 million. Despite the recent volatility in the financial markets, the fair value of the amortised cost fixed income portfolio relative to its carrying value has not changed materially.

**Real Estate Management Unit (REMU)**

The Real Estate Management Unit (REMU) is focused on the disposal of on-boarded properties resulting from debt for asset swaps. Cumulative sales since the beginning of 2017 amount to €1.5 billion and exceed properties on-boarded in the same period of €1.4 billion.

The Group completed disposals of €162 million during the year ended 31 December 2022 (compared to €140 million in the year ended 31 December 2021), resulting in a profit on disposal of €16 million for the year ended 31 December 2022 (compared to a profit of €14 million for the year ended 31 December 2021). Asset disposals are across all property classes, with half of sales by value in the year ended 31 December 2022 relating to land.

During the year ended 31 December 2022, the Group executed sale-purchase agreements (SPAs) for disposals of 674 properties with contract value of €184 million, compared to SPAs for disposals of 703 properties, with contract value of €149 million for the year ended 31 December 2021.

**Group financial results on the underlying basis** (continued)

**Real Estate Management Unit (REMU)** (continued)

In addition, the Group had a strong pipeline of €70 million by contract value as at 31 December 2022, of which €47 million related to SPAs signed (compared to a pipeline of €109 million as at 31 December 2021, of which €47 million related to SPAs signed).

REMU on-boarded €86 million of assets in the year ended 31 December 2022, compared to additions of €34 million in the year ended 31 December 2021, via the execution of debt for asset swaps and repossessed properties.

The carrying value of assets held by REMU that were classified as 'non-current assets and disposal groups held for sale' since 2021 and amounting to €88 million as at 30 September 2022 (comprising stock of properties of €83 million and investment properties of €5 million) were derecognised with the completion of Project Helix 3.

As at 31 December 2022, assets held by REMU had a carrying value of €1,116 million (comprising properties of €1,041 million classified as 'Stock of property' and €75 million as 'Investment properties'), compared to €1,215 million as at 31 December 2021 (excluding assets classified as held for sale, comprising properties of €1,112 million classified as 'Stock of property' and €103 million as 'Investment properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €10 million as at 31 December 2022, compared to €15 million as at 31 December 2021, are not managed by REMU.

**Income Statement Analysis**

**Total income**

Net interest income (NII) for the year ended 31 December 2022 amounted to €371 million (including NII of approximately €12 million relating to Helix 3 which was completed in November 2022), compared to €296 million for the year ended 31 December 2021. The yearly increase of 25% reflects positive gearing to higher rates and to a lesser extent, the growth of the performing loan book and fixed income portfolio, notwithstanding the foregone NII on the Helix 2 portfolio (approximately €15 million in the year ended 31 December 2021).

Average interest earning assets (AIEA) for the year ended 31 December 2022 amounted to €22,488 million, up by 10% compared to the year ended 31 December 2021, driven by the increase in liquid assets as a result of the increase in deposits by approximately €1.5 billion since 31 December 2021 and the increase in the fixed income portfolio by approximately €0.6 billion compared to 31 December 2021.

Net interest margin (NIM) for the year ended 31 December 2022 amounted to 1.65%, compared to 1.45% for the year ended 31 December 2021, supported by the rising interest rate environment.

Non-interest income for the year ended 31 December 2022 amounted to €329 million (compared to €285 million for the year ended 31 December 2021, up by 16% yoy), comprising net fee and commission income of €192 million, net foreign exchange gains and net gains on financial instruments of €36 million, net insurance income of €71 million, net gains from revaluation and disposal of investment properties and on disposal of stock of properties of €13 million and other income of €17 million. The yoy increase is driven by higher net fee and commission income, higher insurance income net of claims and commissions and higher net foreign exchange gains and net gains on financial instruments.

Net fee and commission income for the year ended 31 December 2022 amounted to €192 million, (compared to €172 million for the year ended 31 December 2021, up by 12% compared to the prior year), driven by the introduction of a revised price list in February 2022 and the extension of liquidity fees to a wider customer group in March 2022. Liquidity fees were fully abolished in December 2022. Net fee and commission income for the year ended 31 December 2022 includes an amount of approximately €6 million relating to a NPE sale-related servicing fee, for a transitional period ending in the first quarter of 2023.

Net foreign exchange gains and net gains on financial instruments amounted to €36 million for the year ended 31 December 2022 (comprising net foreign exchange gains of €31 million and net gains on financial instruments of €5 million), compared to €25 million for the year ended 31 December 2021 (comprising net foreign exchange gains of €16 million and net gains on financial instruments of €9 million). The increase of 45% compared to the prior year reflects higher foreign exchange gains through FX swaps. Net foreign exchange gains and net gains on financial instruments are volatile profit contributors.

**Group financial results on the underlying basis** (continued)

**Income Statement Analysis** (continued)

**Total income** (continued)

Net insurance income amounted to €71 million for the year ended 31 December 2022, compared to €61 million for the year ended 31 December 2021, mainly due to increased new business and the positive changes in valuation assumptions, partially offset by higher insurance claims.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for the year ended 31 December 2022 amounted to €13 million (comprising net gains on disposal of properties of €16 million, and net losses from revaluation of investment properties of €3 million), broadly flat compared to the previous year.

Total income for the year ended 31 December 2022 amounted to €700 million, compared to €581 million for the year ended 31 December 2021, up by 21% compared to the prior year, mainly driven by the increase in the net interest income, net fee and commission income and insurance income net of claims and commissions as explained above.

**Total expenses**

Total expenses for the year ended 31 December 2022 were €381 million (compared to €386 million for the year ended 31 December 2021), down 1% yoy, 50% of which related to staff costs (€190 million), 40% to other operating expenses (€153 million) and 10% to special levy on deposits and other levies/contributions (€38 million). The yearly decrease relates to the decrease in staff costs offset by the increase in other operating expenses as explained further below.

Staff costs for the year ended 31 December 2022 were €190 million, compared to €202 million for the year ended 31 December 2021, down by 6% compared to the prior year, resulting from the Voluntary Staff Exit Plans that took place during 2022, partially offset by the impact of the collective agreement and the introduction of a new pay grading structure and long-term incentive plan. The VEPs led to the reduction of the Group's full time employees by 16%, at a total cost of €104 million. Following the completion of the VEP, the gross annual savings are estimated at approximately €37 million or 19% of staff costs with a payback period of 2.7 years. The estimated savings of the VEP are expected to be partially offset by the renewal of the collective agreement in 2023.

The Group employed 2,889 persons as at 31 December 2022 compared to 3,438 persons as at 31 December 2021.

In July 2021, BOC PCL reached agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement for the years 2021 and 2022. The agreement related to certain changes including the introduction of a new pay grading structure linked to the value of each position of employment, and of a performance-related pay component as part of the annual salary increase, both of which have been long-standing objectives of BOC PCL and are in line with market best-practice. The impact of the renewal was an increase in staff costs for 2022 by 3-4% per annum, in line with the impact of renewals in previous years.

During December 2022 the Group has granted to eligible employees share awards under a long-term incentive plan ('2022 LTIP'). The 2022 LTIP involves the granting of an award in the form of shares of BOCH and is driven by scorecard achievement, with measures and targets set to align pay outcomes with the delivery of the Group's strategy. The employees eligible for the 2022 LTIP are the members of the Extended EXCO. The 2022 LTIP stipulates that performance will be measured over a 3-year period and financial and non-financial objectives to be achieved. At the end of the performance period, the performance outcome will be used to assess the percentage of the awards that will vest. These share awards will then normally vest in six tranches, with the first tranche (40%) vesting the year following the end of the year the performance period ends and thereafter on an annual basis in equal tranches (12%) with the last tranche vesting on the fifth anniversary of the first vesting date. For the year ended 31 December 2022, the Group recognised in the Consolidated Income Statement an expense of less than €0.5 million regarding the 2022 LTIP. Based on the fair value of these awards on the grant date, the expense deferred to future periods is estimated at approximately €1.1 million. Actual amounts to be expensed in future periods may be lower, e.g., due to forfeiture of awards.

**Group financial results on the underlying basis** (continued)

**Income Statement Analysis** (continued)

**Total expenses** (continued)

Other operating expenses for the year ended 31 December 2022 were €153 million, compared to €148 million for the year ended 31 December 2021, up by 4% compared to the previous year, driven by inflationary pressures.

Special levy on deposits and other levies/contributions for the year ended 31 December 2022 amounted to €38 million (compared to €36 million for the year ended 31 December 2021) up by 6% yoy, driven by the increase in deposits of approximately €1.5 billion yoy. Special levy on deposits and other levies/contributions for 2022 include a levy in the form of an annual guarantee fee relating to the revised Income Tax legislation of €4.8 million compared to €5.3 million in 2021 (see section 'Capital Base' under 'Balance Sheet Analysis' section above) and the contribution of BOC PCL to the Deposit Guarantee Fund (DGF) of €6 million (2021: €6 million).

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

The cost to income ratio excluding special levy on deposits and other levies/contributions for the year ended 31 December 2022 was 49%, compared to 60% for the year ended 31 December 2021. The decrease is driven by the higher total income.

The cost to income ratio excluding special levy on deposits and other levies/contributions for 2023 is expected to decrease to mid-40s, reflecting management's ongoing focus on efficiency and cost discipline in an inflationary environment. This target includes a commitment of maintaining total operating expenses of a range between €350-360 million, reflecting some upward pressure on costs from investments in transformation and digitalisation and the renewal of the collective agreement in 2023. The cost to income ratio excluding special levy on deposits and other levies/contributions for 2024 is expected to remain at around similar levels to 2023.

**Profit before tax and non-recurring items**

Operating profit amounted to €319 million for the year ended 31 December 2022, compared to €195 million for the year ended 31 December 2021, an increase of 64%, driven mainly by the significant increase in net interest income.

Loan credit losses for the year ended 31 December 2022 totalled €47 million, compared to €66 million for the year ended 31 December 2021, down by 30% compared to the prior year.

The annualised loan credit losses charge (cost of risk) for the year ended 31 December 2022 was 44 bps, compared to a cost of risk of 57 bps for the year ended 31 December 2021, down by 13 bps reflecting strong asset quality performance in 2022.

At 31 December 2022, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures (please refer to 'Alternative Performance Measures Disclosures' of the Annual Financial Report for definition) amounted to €282 million, compared to €792 million at 31 December 2021, and accounted for 2.8% of gross loans (compared to 7.3% (4.5% pro forma for HFS) of gross loans at 31 December 2021).

Impairments of other financial and non-financial assets for the year ended 31 December 2022 amounted to €33 million, compared to €36 million for the year ended 31 December 2021, down by 9% compared to the previous year.

Provisions for pending litigations, claims, regulatory and other matters (net of reversals) for the year ended 31 December 2022 amounted to €11 million, compared to a reversal of €2 million for the year ended 31 December 2021. The net increase in provisions for pending litigations, claims regulatory and other matters (net of reversals) for the year ended 31 December 2022 was primarily driven by a one-off charge of approximately €5.5 million in relation to a revised approach on pending litigation fees.

**Group financial results on the underlying basis** (continued)

**Income Statement Analysis** (continued)

**Profit before tax and non-recurring items** (continued)

Profit before tax and non-recurring items for the year ended 31 December 2022 totalled €228 million, compared to €95 million for the year ended 31 December 2021.

**Profit after tax and before non-recurring items (attributable to the owners of the Company)**

The tax charge for 2022 is €36 million compared to €5 million for 2021.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for the year ended 31 December 2022 amounted to €189 million, compared to €88 million for the year ended 31 December 2021. Return on Tangible Equity (ROTE) before non-recurring items calculated using 'Profit after tax and before non-recurring items (attributable to the owners of the Company)' amounts to 11.4% ('Recurring ROTE') for the year ended 31 December 2022, compared to 5.4% for the year ended 31 December 2021.

Advisory and other restructuring costs – organic for the year ended 31 December 2022 amounted to €11 million, compared to €22 million for the year ended 31 December 2021, down by 48% compared to the previous year, mainly due to ad-hoc costs related to the tender offer for Existing Tier 2 Capital Notes amounting to €12 million in the year ended 31 December 2021. Advisory and other restructuring costs – organic for the year ended 31 December 2022 relate to the transformation program and other strategic projects of the Group.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for the year ended 31 December 2022 amounted to €178 million, compared to €66 million for the year ended 31 December 2021.

Provisions/net profit/(loss) relating to NPE sales for the year ended 31 December 2022 amounted to a profit of approximately €1 million, compared to a loss of €7 million for the year ended 31 December 2021 (relating to Helix 2 and Helix 3).

Restructuring and other costs relating to NPE sales for the year ended 31 December 2022 was €3 million, compared to €16 million for the year ended 31 December 2021 (relating to the agreements for the sale of portfolios of NPEs).

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) amounted to €104 million for the year ended 31 December 2022, compared to €16 million for the year ended 31 December 2021. For further details please refer to section 'Total expenses'.

Profit after tax attributable to the owners of the Company for the year ended 31 December 2022 amounted to €72 million, compared to a profit of €27 million for the year ended 31 December 2021. Return on Tangible Equity (ROTE) amounts to 4.3% for the year ended 31 December 2022, compared to 1.7% for the year ended 31 December 2021.

**Operating Environment**

According to the IMF's revised World Economic Outlook published at the end of January, the global economy is expected to slow in 2023 before picking up again in 2024. Growth will remain weak by historical standards as a result of tighter monetary conditions in the fight against inflation and the negative impact of the war in Ukraine. Global growth is expected to slow from 3.4% in 2022 to 2.9% in 2023, before recovering to 3.1% in 2024. In the euro area, despite signs of resilience to the energy crisis, a mild winter and generous fiscal support, growth is expected to be around 0.7% in 2023 resulting from tighter monetary conditions, a negative terms-of-trade shock from higher energy prices and increased uncertainty as the war in Ukraine is expected to escalate further.

As expected, the ECB continued to raise interest rates at the start of 2023. At the most recent Governing Council meeting on 8 February 2023, the ECB raised its main refinancing operations rate by 50 basis points to 3%. The ECB raised its marginal lending facility to 3.25% and its deposit facility to 2.5%. Rising inflation and a more aggressive monetary policy stance by the U.S. Federal Reserve are expected to force the ECB to take a more aggressive approach. The ECB began raising interest rates in July 2022, when the main refinancing operations rate was zero and the deposit facility was at -0.5%. Financing conditions are expected to tighten further in 2023 and interest rates to remain high throughout the year.

Harmonised inflation in Cyprus fell from 10.6% in July 2022 to 7.6% in December 2022. The annual average was 8.1% in Cyprus and 8.4% in the euro area. Average inflation was higher in the EU, reflecting strong inflation increases in some Member States, mainly in Central and Eastern Europe. In Cyprus, energy contributed 2.6 percentage points and food 0.5 percentage points to total harmonised inflation. Other influences accounted for 5 percentage points. Cyprus does not use gas for energy consumption or electricity production and is entirely dependent on oil, the price of which has not risen as much as that of natural gas.

In a challenging international environment, the Cypriot economy has shown considerable resilience. The contraction of 4.4% in 2020 was modest compared to other southern countries. The economy rebounded strongly in 2021, with real GDP growing by 6.6%. Growth remained strong in 2022 averaging 5.6% which is well above the euro area average. In the fourth quarter of 2022, economic growth stood at 4.5%. However, growth is expected to decelerate in 2023, towards 3%, according to the Ministry of Finance.

On the fiscal side, the recovery in 2021 is underpinned by a significant increase in general government revenue and a relative decline in government expenditure. As a result, the budget deficit narrowed to 1.7% of GDP from a deficit of 5.8% of GDP in 2020, reflecting government measures to support the economy in the midst of a deep recession induced by the COVID-19 pandemic. Developments in 2022 were favourable for public finances. Revenues grew by 16.7% in the first three quarters of the year, while expenditures increased by 1.3%, indicating a significant surplus in the period. Part of the increase in revenues is a windfall related to the energy crisis, but overall, the current state of public finances is positive. Public debt is sustainable and firmly on a downward path. With a budget surplus in 2022 and inflation at around 8.1%, the debt-to-GDP ratio is expected to fall towards 87%, according to the Ministry of Finance. In the longer term, public debt dynamics will depend on interest rate developments, inflation, and growth.

On the supply side, growth in the first three quarters of the year for which data is available, was almost entirely driven by services. Trade, transport, and accommodation services accounted for more than half of the growth over the period. Information and communications and professional and administrative services also made significant contributions. In the industrial sector, growth came from the utilities, electricity, and water sectors, with only a marginal contribution from manufacturing. Construction activity declined slightly and made a negative contribution.

On the demand side, growth in the first three quarters was driven by private consumption and investment, especially inventory accumulation, while the external sector made a negative contribution due to faster growth in imports. Total investment includes transport equipment, which includes ship registrations.

Tourist activity recovered strongly during the year. Arrivals reached 3.2 million persons, or 80% of the corresponding arrivals in 2019. Receipts reached an estimated €2.4 billion in the year, or 90% of corresponding receipts in 2019. The increase in arrivals was mainly due to increases from the United Kingdom and, to a lesser extent, from other European countries and Israel. Travel from Russia and Ukraine has been affected by the war and sanctions.

**Operating Environment** (continued)

Rising energy costs, exacerbated by the war in Ukraine, are affecting both consumers and businesses. The government has taken initial steps to mitigate the impact. The government lowered VAT rates on electricity and reduced excise duties on petrol and diesel for a limited period until June 2022. The latter remained in force until the end of January 2023. In September 2022, the government introduced a graduated system of subsidies for electricity consumption to replace the reduced VAT.

Cyprus received the first disbursement from the European Commission's Recovery and Resilience Facility of €157 million in September 2021, following the approval of the National Recovery Plan in July of the previous year. This was a pre-financing of 13% of the total disbursements for the period 2021-2026. Furthermore, the European Commission disbursed the first payment of €85 million to Cyprus under the Recovery and Resilience Facility, in December 2022 following the passage of conditional legislation in parliament. The release of the funds is conditional on the strict implementation of the reforms agreed in the National Recovery Plan. The funds will be used, among other things, to increase investment in the digital and green transition and to improve the efficiency of public and local administrations, and of the judicial system.

The banking sector has undergone significant restructuring since the financial crisis of 2013. Banks have reduced their foreign exposures, significantly shrunk their balance sheets, increased their capital buffers, and restructured and refocused their domestic operations. Prudential supervision has been strengthened and a new legal framework for private debt restructuring, including the sale of loans, is now in place. Total non-performing exposures (NPEs) at the end of November 2022 amounted to €2.7 billion, or 10.5% of gross loans. NPEs at the end of 2021 amounted to €3 billion or 11.1% of gross loans. 47.8% of total NPEs at the end of November 2022 were restructured facilities and the coverage ratio was 52.2%. Private debt has continued to decline since mid-2012, shrinking by more than half by the end of December 2022. The decline reflects the long process of deleveraging since the start of the financial crisis and includes the sale or transfer of non-performing loans in recent years. Private debt, as measured by loans to residents excluding the government, stands at 80% of nominal GDP at the end of December 2022. Pure new business lending, which excludes renegotiated amounts, reached €3.2 billion in 2022 as a whole, exactly the same level as pure new lending in 2019. Cypriot banks are excessively liquid, and the bulk of these excess deposits are held overnight at the ECB.

Cyprus' current account deficit narrowed from 10.1% of GDP in 2020 to 6.8% in 2021 and is estimated at 9.6% in 2022 according to the European Commission's autumn forecast. From 2023 onwards, the deficit is expected to gradually narrow as services revenues recover and EU recovery and resilience funds are credited to the secondary income account. However, the current account deficit will remain higher than pre-pandemic levels in the medium term, partly due to strong import growth linked to higher energy prices and EU investment plans, which will weigh on the trade balance. The size of the country's deficit is partly structural, a consequence of special purpose vehicles domiciled in Cyprus.

*Recent developments*

Recent developments in financial markets in March 2023, particularly in the United States but also in Europe to a lesser extent have been unprecedented. The failures of the two banks in the United States, the California-based Silicon Valley Bank and the New York-based Signature Bank, prompted the forceful intervention of the authorities to pre-empt the risk of financial instability in the banking system. Since 10 March 2023, the US Federal Deposit Insurance Corporation (the 'FDIC') and state regulators have taken control of the two banks.

The US authorities have also taken additional measures to prevent a broader run-on bank deposits. This included invoking a systemic risk clause that allowed the US authorities to guarantee all deposits in the two banks beyond the $250,000 insured cap guarantee by the FDIC. The US Federal Reserve also established a new lending facility that provides banks access to liquidity against eligible collateral but without the need to take a haircut.

In Switzerland, Credit Suisse was exposed to the same sort of concerns as global banks; Credit Suisse was bought by UBS, another Swiss bank, after a deal brokered by the Swiss government, which included liquidity assistance from the Swiss National Bank and partial losses guarantees from the government. Following the Credit Suisse deal, the Single Resolution Board, the European Banking Authority and the ECB Banking Supervision issued a statement welcoming the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability and noting that the European banking sector is resilient, with robust levels of capital and liquidity.

The Group is closely monitoring developments.

**Operating Environment** (continued)

***Sovereign ratings***

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

Most recently, in March 2023, Fitch Ratings upgraded Cyprus' Long-Term Issuer Default rating at investment grade BBB and stable outlook. The upgrade reflects the country's fiscal outperformance, improvement in government indebtedness, and macroeconomic resilience, among others.

In October 2022, DBRS Morningstar affirmed the Republic of Cyprus' Long-Term Foreign and Local Currency – Issuer Ratings at BBB (low) and maintained the trend stable. The affirmation is supported by a stable political environment, the government's sound fiscal and economic policies and the favourable government debt profile. The stable outlook balances recent favourable fiscal dynamics against downside risks for the economic outlook (including further escalation of the crisis in Ukraine).

In September 2022, S&P Global Ratings upgraded Cyprus' investment grade rating of BBB/A-2 and has changed the outlook from positive to stable. The upgrade reflects the resilience of the Cypriot economy to recent external shock (including the COVID-19 pandemic). The stable outlook balances risks from the crisis in Ukraine and the economy's diversified structure and the expectation that the government's fiscal position will continue to improve.

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

**Business Overview**

**Credit ratings**

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In December 2022, Fitch Ratings upgraded BOC PCL's long-term issuer default rating to B+ from B-, whilst maintaining the positive outlook. The two-notch upgrade reflects the improved asset quality of BOC PCL, supported by the completion of Project Helix 3 together with the organic reduction of impaired assets. The upgrade is also underpinned by Fitch's view of the resilience of the Cypriot economy, even in light of growing economic uncertainties. In October 2022, Moody's Investors Service upgraded BOC PCL's long-term deposit rating to Ba2 from Ba3, maintaining the positive outlook. The main drivers for this upgrade are the resilience of the Cypriot economy, that is supporting the operating conditions of the banking system to external shocks and the gradual improvement in credit conditions. In September 2022, S&P Global Ratings raised the long-term issuer credit rating of BOC PCL to BB- from B+ and revised the outlook to stable from positive. The upgrade reflects the improvement in asset quality and easing economic risks.

**Upgrade of financial targets**

The Group is a diversified, leading, financial and technology hub in Cyprus. During 2022 the Group delivered positive financial results and exceeded its 2022 financial targets, confirming the sustainability of its business model with well-diversified revenues and disciplined cost containment despite inflationary pressures. Overall the Group achieved a recurring ROTE of 11.4% for the year. The positive performance is expected to continue in 2023, leading to an upgrade of targeted ROTE to over 13% from over 10% facilitated by the Group's positive gearing to rising interest rates, improved efficiencies, healthy loan portfolio and robust capital position. Therefore, the intention to commence meaningful dividend distributions from 2023 onwards, subject to regulatory approval and market conditions, is reiterated. The Group expects to achieve ROTE over 13% for 2024[11], on the back of stabilising margins and growth of the loan portfolio.

[11] Based on market forward rates as at 23 January 2023; average ECB deposit rate for 2023 assumed at 2.8%.

**Business Overview** (continued)

***Favourable interest rate environment***
The structure of the Group's balance sheet is geared towards higher interest rates facilitating immediate growth in net interest income. As at 31 December 2022, cash balances with ECB (excluding TLTRO of approximately €2.0 billion) amounted to approximately €7.6 billion, well positioned to benefit from further interest rate rises. The repricing of the reference rates gradually benefits the interest income on loans, as over 95% of the Group's loan portfolio is variable rate as at 31 December 2022. The Group benefited from the steep and fast increase of interest rates in 2022. The net interest income for the year ended 31 December 2022 stood at €371 million, reflecting an increase of 25% yoy. Factoring in the expectations for the evolution of the interest rates, the net interest income guidance for 2023 is upgraded and the net interest income is now expected to grow by 40-50% yoy. This incorporates assumptions on evolution of interest rates (*based on market forward rates as at 23 January 2023; average ECB deposit rate for 2023 assumed at 2.8%*), of continuing to rebuild the fixed income portfolio, increased costs of funding, gradual increase in cost of deposits (increase time deposits pass-through to approximately 50%) and gradual change in deposit mix towards time deposits (from 30% as at 31 December 2022 to approximately 45% in December 2023). Following the completion of Project Helix 3 and the end of TLTRO III favourable terms, an overall amount of approximately €28 million, net interest income, will not be repeated in 2023. The growth in the fixed income portfolio is expected to broadly offset foregone net interest income from TLTRO III and higher wholesale funding costs.

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

The Group has continued to provide high quality new lending in the year ended 31 December 2022 via prudent underwriting standards. Growth in new lending in Cyprus has been focused on selected industries in line with the BOC PCL's target risk profile.

During the year ended 31 December 2022, new lending amounted to €2.092 million, up by 17% yoy, returning to pre-pandemic levels. The increase is driven by increased activity across all sectors, with corporate being the main driver. As a result, the net performing loan book expanded to €9.6 billion up by 3% yoy, despite uncertainties in the macroeconomic environment. However, due to the continuing interest rate rises, demand for new loans is expected to slow down in 2023. In the short-term, net interest income is expected to be supported primarily by asset repricing and higher investments in securities.

As at 31 December 2022, the fixed income portfolio of the Group amounted to €2.5 billion, up by 30% on the prior year and represents 10% of total assets. The portfolio comprises highly rated fixed rate bonds with low average duration, giving the Group the flexibility to take advantage of rising interest rates. The completion of the balance sheet de-risking and the Group's comfortable liquidity position is expected to allow the Group to continue expanding the fixed income portfolio in 2023, subject to market conditions.

The fixed income portfolio consists of €2,046 million measured at amortised cost and €454 million measured at FVOCI. During the year ended 31 December 2022 the Group recognised fair value losses of approximately €10 million directly to Group's equity for the fixed income portfolio measured at FVOCI. The fixed income portfolio measured at amortised cost are held to maturity and therefore no fair value gains/losses are recognised in the Group's income statement or equity. This bond portfolio has low average duration of approximately two years and high average rating at A2 or at Aa3 when Cyprus government bonds are excluded. The fair value of the amortised cost fixed income portfolio as at 31 December 2022 amounts to €1,953 million. Despite the recent volatility in the financial markets, the fair value of the amortised cost fixed income portfolio relative to its carrying value has not changed materially.

Separately, the Group focuses to continue improving revenues through multiple less capital-intensive initiatives, with a focus on fees and commissions, insurance and non-banking opportunities, leveraging on the Group's digital capabilities. In the first quarter of 2022, a revised price list for charges and fees was implemented and liquidity fees were extended to a wider customer group. The net fee and commission income for the year ended 31 December 2022 remained strong at €192 million, reflecting an increase of 12% yoy. The net fee and commission income for the year ended 31 December 2022 included approximately €16 million from the liquidity fees which were fully abolished in December 2022 and approximately €6 million of servicing fee relating to an NPE portfolio sale that will be phased out in the first quarter of 2023.

**Business Overview** (continued)

***Growing revenues in a more capital efficient way*** *(continued)*
Net fee and commission income is also enhanced by transaction fees from the Group's subsidiary, JCC Payment Systems Ltd (JCC), a leading player in the card processing business and payment solutions, 75% owned by BOC PCL. JCC's net fee and commission income contributed 8% of total non-interest income and amounted to €27 million in the year ended 31 December 2022, up 22% compared to the previous year, backed by strong transaction volume.

The Group's insurance companies, EuroLife Ltd (Eurolife) and Genikes Insurance of Cyprus Ltd (GI) are respectively leading players in the life and general insurance business in Cyprus, and have been providing recurring and improving income, further diversifying the Group's income streams. The insurance income net of claims and commissions for the year ended 31 December 2022 contributed 22% of non-interest income and amounted to €71 million, up 17% yoy, driven by exceptionally strong new business in life insurance and the positive changes in valuation assumptions, partially offset by higher insurance claims. Specifically, Eurolife increased its total regular income by 17% yoy, whilst GI increased its gross written premiums by 11% yoy. Following the adoption of IFRS 17, total profits of an insurance contract will remain unchanged over its life. However, the new standard will impact the timing of when profits emerge, improving the predictability of profit over the long-term and is expected to result in a modest annual negative impact on the contribution to Group's profits from the Group's insurance business in the near term. For information on IFRS 17 please refer to the relevant subsection below.

Finally, the Group through the Digital Economy Platform (Jinius) (the 'Platform') aims to generate new revenue sources over the medium term, leveraging on BOC PCL's market position, knowledge and digital infrastructure. The Platform aims to bring stakeholders together, link businesses with each other and with consumers and to drive opportunities in lifestyle banking and beyond. The Platform is expected to allow BOC PCL to enhance the engagement of its customer base, attract new customers, optimise the cost of BOC PCL's own processes, and position BOC PCL next to the customer at the point and time of need. Currently, around 1,500 companies were registered in the platform.

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

The efficiency actions of the Group in 2022 to maintain operating expenses under control in an inflationary environment included further branch footprint optimisation and substantial streamline of workforce. In July 2022, the Group successfully completed a Voluntary Staff Exit Plan (VEP) through which 16% of the Group's full-time employees were approved to leave at a total cost of €101 million. Following the completion of the VEP, the gross annual savings were estimated at approximately €37 million or 19% of staff costs with a payback period of 2.7 years. Additionally, in January 2022 one of BOC PCL's subsidiaries completed a small-scale targeted Voluntary Staff Exit Plan (VEP), through which a small number of full-time employees were approved to leave at a total cost of €3 million. In relation to branch restructuring, during 2022 the Group reduced the number of branches by 20 to 60, a reduction of 25%. Through these successful initiatives, the Group has delivered ahead of schedule on its commitment to reduce its workforce by approximately 15% and its number of branches by 25%. As a result, the cost to income ratio excluding special levy on deposits and other levies/contributions for the year ended 31 December 2022 was reduced to 49%, 11 p.p. down compared to previous year, surpassing the Group's target of low-50s for 2022.

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

**Business Overview** (continued)

***Lean operating model*** *(continued)*
These share awards will then normally vest in six tranches, with the first tranche (40% of the award) vesting the year following the end of the year the performance period ends and the remaining 60% vesting in equal annual tranches (12%) with the last tranche vesting on the fifth anniversary of the first vesting date. For the year ended 31 December 2022, the Group recognised in the Consolidated Income Statement an expense of less than €0.5 million regarding the 2022 LTIP. Based on the fair value of these awards on the grant date, the expense deferred to future periods is estimated at approximately €1.1 million. Actual amounts to be expensed in future periods may be lower, e.g., due to forfeiture of awards.

The cost to income ratio excluding special levy on deposits and other levies/contributions for 2023 is expected to decrease to mid-40s, reflecting management's ongoing focus on efficiency and cost discipline in an inflationary environment. This target includes a commitment of maintaining total operating expenses of a range between €350-360 million, reflecting some upward pressure on costs from investments in transformation and digitalisation and the renewal of the collective agreement in 2023. The cost to income ratio excluding special levy on deposits and other levies/contributions for 2024 is expected to remain at around similar levels to 2023.

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

*Digital transformation*
BOC PCL's digital transformation focuses on developing digital services and products that improve the customer experience, streamlining internal processes, and introducing new ways for improving the workplace environment.

During the fourth quarter of 2022, BOC PCL continued to enrich and improve its digital portfolio with new innovative services to its customers. The introduction of the QuickLoan new lending products available through the Group's digital channels (Mobile App and Internet Banking), further differentiates BOC PCL within the Cypriot market and enhances its status as a digital leader in banking. The introduction of QuickLoan allows BOC PCL's retail customers to apply for a loan and have an instant update of the approval status of their application.

The adoption of digital products and services continued to grow and gained momentum in the fourth quarter of 2022 and beyond. As at the end of December 2022, 93.9% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by 27.5 p.p. from 66.4% in September 2017 when the digital transformation programme was initiated). In addition, 81.7% of individual customers were digitally engaged (up by 21.5 p.p. from 60.2% in September 2017), choosing digital channels over branches to perform their transactions. As at the end of December 2022, active mobile banking users and active QuickPay users have grown by 12.8% and 31.3% respectively over the last 12 months. The highest number of QuickPay users to date was recorded in December 2022 with 169 thousand active users. Likewise, the highest number of QuickPay payments was recorded in December 2022 with 565 thousand transactions.

***Asset quality***
Balance sheet de-risking was largely completed in 2022, marked by the completion of Project Helix 3 which refers to the sale of non-performing exposures with gross book value of €550 million as at 30 September 2022. Project Helix 3 represents a further milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs. Overall, since the beginning of 2022, and including organic NPE reductions of approximately €360 million, the Group reduced its NPEs by 69% and its NPE ratio from 12.4% to 4.0% delivering the 2022 NPE ratio target of sub-5%. As a result, the Group's priorities remain intact, maintaining high quality new lending with strict underwriting standards and preventing asset quality deterioration in this uncertain outlook.

The cost of risk target and NPE ratio target display conservative assumptions on both NPE inflows and provisioning to weather the ongoing macroeconomic uncertainty. Although there are currently no signs of asset quality deterioration, the cost of risk target of 50-80 bps and NPE ratio target of sub 5% remain unchanged for 2023. The cost of risk is expected to start normalising from 2024 onwards to around 40-50 bps.

**Business Overview** (continued)

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

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

The Group has committed to the following primary ESG targets, which reflect the pivotal role of ESG in the Group's strategy:
- Become carbon neutral by 2030
- Become Net Zero by 2050
- Steadily increase Green Asset Ratio
- Steadily increase Green Mortgage Ratio
- ≥30% women in Group's management bodies (defined as the Executive Committee (EXCO) and the Extended EXCO) by 2030

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

*Environmental Pillar*
The Group has estimated the Scope 1 and Scope 2 emissions of 2021 greenhouse gas ('GHG') relating to own operations in order to set the baseline for carbon neutrality target. BOC PCL being the main contributor of GHG emissions of the Group, designed in 2022 the strategy to meet the carbon neutrality target by 2030 and progress towards Net Zero target of 2050. BOC PCL plans to invest in energy efficient installations and actions and replace fuel intensive machineries and vehicles from 2023 to 2025, which would lead to approximately 5-10% reduction in Scope 1 and Scope 2 emissions by 2025 compared to 2021. The Group expects that the Scope 2 emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The Group through installation of solar panels and other energy efficiency actions performed in 2021 and 2022 achieved a reduction in electricity consumption of 1.8 million KWh (11% reduction) in the year ended 31 December 2022 compared to the baseline year of 2021.

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

In 2022 BOC PCL launched a low emission vehicle loan product (either hybrid or electric) and intends to further expand its range of environmentally friendly products that are expected to be launched in 2023. In addition, the Group has set up a Sustainable Finance Framework which will facilitate the issuance of Green, Social or Sustainable bonds. The proceeds from such bonds will be allocated to eligible activities and products as designated in the Sustainable Finance Framework.

Moreover, BOC PCL is making substantial progress in further integrating climate risk considerations into its risk management approach, as it tries to integrate climate related risk into its risk culture. BOC PCL, within the context of underwriting processes, is currently in the process of incorporating the assessment of ESG and climate matters and amending its policies and procedures in such a way that potential impact from ESG and climate is reflected in the fundamental elements of the creditworthiness assessment.

**Business Overview** (continued)

***Enhancing organisational resilience and ESG (Environmental, Social and Governance) agenda*** *(continued)*
This exercise includes the design of ESG questionnaires per sector, which will then be leveraged for deriving an ESG classification. In addition, BOC PCL is in the process to enhance the risk quantification methodology to assess how the portfolio is affected by C&E risks and will be incorporating the above elements into the stress testing infrastructure.

During 2022, in order to enhance the awareness and skillset towards the ESG, the Group performed several trainings to the Board of Directors, Senior Management and employees. In addition, the internal communication channels are enhanced by establishing an ESG internal portal and launching Green@work which provides tips on energy efficiency actions at work. Early in 2023, BOC PCL launched a campaign on new Visa Debit cards produced from recyclable plastic extracted from the ocean. The campaign aims to inform the public on the level of water contamination from plastic and the impact on life below water.

*Social Pillar*
At the centre of the Group's leading social role lie its investments in the Bank of Cyprus Oncology Centre (with an overall investment of approximately €70 million since 1998, whilst 60% of diagnosed cancer cases in Cyprus are being treated at the Centre), the work of SupportCY Network, which was developed in 2020, the contribution of the Bank of Cyprus Cultural Centre in promoting the cultural heritage of the island, and the Work of IDEA Innovation Centre. The Cultural Centre undertook a number of innovative projects such as 'AISTHISEIS' - Multi sensory museum experience for people with disabilities and Faneromeni Arts Festival promoting youth. The IDEA Innovation Centre provided education to 7,000 entrepreneurs, invested approximately €4 million in start-up business creation and supported the creation of 82 new companies to date. Staff have continued to engage in voluntary initiatives to support charities, foundations, people in need and initiatives to protect the environment.

The Group has continued to upgrade its staff's skillset by providing training and development opportunities to all staff, and capitalising on modern delivery methods. In 2022, the Group heightened its emphasis on staff wellness by offering webinars, team building activities and family events with sole purpose to enhance mental, physical, financial and social health, attended by 1,424 employees through its 'Well at Work program'.

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

The Board composition of the Company is diverse, with 40% of the Board members being female as at 31 December 2022. The Board displays a strong skillset stemming from broad international experience. Moreover, BOC PCL aspires to achieve a representation of at least 30% women in Group's management bodies (Defined as the EXCO and the Extended EXCO) by 2030. As at 31 December 2022, there is a 27% representation of women in Group's management bodies and a 39% representation of women at key positions below the Extended EXCO level (defined as positions between Assistant Manager and Manager).

**Business Overview** (continued)

**IFRS 17**

IFRS 17, is effective from 1 January 2023, and impacts the phasing of profit recognition for insurance contracts. The Group's insurance-related retained earnings will be restated and the reporting of insurance new business revenue will be spread over time, as the Group provides service to its policyholders (versus recognised up-front under the accounting standards applied up until 2022), with the quantum and timing of the impact dependent on, inter alia, the amount and mix of new business and extent of assumption changes in any given year following implementation.

- Under IFRS 17, there will be no present value of in-force life insurance contracts ('PVIF') asset recognised. Instead, the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin (‘CSM’) and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under IFRS 17.
- IFRS 17 requires the increased use of current market values in the measurement of insurance assets and liabilities hence insurance liabilities and related assets will be adjusted to reflect IFRS 17 measurement requirements.
- In accordance with IFRS 17, directly attributable costs will be incorporated in the CSM and will be presented as a deduction to reported revenue. This will result in a reduction in operating expenses.

The Group has made significant progress on the implementation of IFRS 17 and assessing the impact on the financial statements.

On transition the following impact has been estimated:

a) the removal of the value of in-force from the life insurance business (including associated deferred tax liability) of approximately €101 million as per the Group’s consolidated balance sheet as at 31 December 2022, which will reduce Group accounting equity by a respective amount (with no impact on the Group regulatory capital or tangible equity), and

b) the remeasurement of insurance assets and liabilities and the creation of a contractual service margin (CSM) liability is estimated to result in an increase in the equity of the insurance business of the Group (predominantly relating to the life insurance business of the Group) in the range of €70-80 million as at 1 January 2022, which is a consequence of life insurance products. The estimated effect on equity of the insurance business of the Group as at 1 January 2023 (roll forwarding the impact on 2022 profits and taking into consideration other movements in reserves in 2022) is an increase in the range of €50-60 million, compared to the closing equity as at 31 December 2022 as reported under the previous accounting standard, IFRS 4.

As a result of the benefit arising from IFRS 17 on 1 January 2023 as referred to in (b) above, the life insurance subsidiary distributed €50 million as dividend to BOC PCL in February 2023, which benefited Group regulatory capital by an equivalent amount on the same date, enhancing CET1 ratio by approximately 50 bps.

The adoption of IFRS 17 is expected to result in a modest annual negative impact on the contribution to Group’s profits by the Group’s insurance business in the near term.

**Ukrainian crisis**

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

**Business Overview** (continued)

**Ukrainian crisis** (continued)

*Direct impact*
The Group does not have any banking operations in Russia or Ukraine, following the sale of its operations in Ukraine in 2014 and in Russia in 2015. The Group has run down its legacy net exposure to less than €1 million as at 31 December 2022 in Russia through write-offs and provisions.

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

The Group has limited direct exposure to loans related to Ukraine, Russia and Belarus, representing 0.4% of total assets or approximately 1% of net loans as at 31 December 2022. The net book value of these loans stood at €108 million as at 31 December 2022, of which €98 million are performing, whilst the remaining were classified as NPEs well before the current crisis. The portfolio is granular and secured mainly by real estate properties in Cyprus.

Customer deposits related to Ukrainian, Russian and Belarusian customers account for only 6% of total customer deposits as at 31 December 2022. This exposure is not material, given the Group's strong liquidity position. The Group operates with a significant surplus liquidity of €7.2 billion (LCR ratio of 291%) as at 31 December 2022.

*Indirect impact*
Although the Group's direct exposure to Ukraine, Russia or Belarus is limited, the crisis in Ukraine had a negative impact on the Cypriot economy, mainly arising from the tourism and professional services sectors, increasing energy prices fuelling inflation and disruptions to global supply chains. During 2022 the performance of the tourism sector was strong despite challenges and represented 80% of 2019 levels, despite the sizeable loss of tourist arrivals from Russia and Ukraine. The Group continues to monitor exposures in sectors likely impacted by the prolonged geopolitical uncertainty and persistent inflationary pressures and remains in close contact with customers to offer solutions as necessary.

Cyprus has no energy dependence on Russia as it imports oil from Greece, Italy and the Netherlands; however it is indirectly affected by pricing pressures in the international energy markets. The focus on renewable energy sources increases, marked by a steady improvement in contribution at 18% in 2022 (compared to 16% in 2021).

Professional services account for approximately 10% of GDP (based on year 2021) of which some relate to Russia or Ukraine and thus expected to be adversely impacted. There is however no credit risk exposure as the sector is not levered.

Between 2018-2020, Cyprus recorded net foreign direct investment (FDI) outflow to Russia. While Russian gross FDI flows in and out of Cyprus may be quite large, these often reflect the typical set-up of Special Purpose Entities, with limited actual impact on the Cypriot economy, hence likely to have limited impact on domestic activity levels.

Overall, the Group expects limited impact from its direct exposure, while any indirect impact depends on the duration and severity of the crisis and its impact on the Cypriot economy.

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

**Strategy and Outlook**

The strategic objectives for the Group are to become a stronger, safer and a more efficient institution with a sustainable and well-diversified business model committed to deliver sustainable shareholder returns.

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

- 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
- Strengthen asset quality; maintaining high quality new lending, completing legacy de-risking, normalising cost of risk and reducing (other) impairments
- Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda; by continuing to work towards building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities

| KEY STRATEGIC PILLARS | ACTION TAKEN IN THE YEAR ENDED 31 DECEMBER 2022 AND TO DATE | PLAN OF ACTION |
|---|---|---|
| Growing 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) | • A revised price list for charges and fees was implemented in February 2022<br>• Liquidity fees were extended to a wider customer group in March 2022 and abolished in December 2022 following interest rate rises<br>• Net performing loan book grew to €9.6 billion, an increase of 3% in the year ended 31 December 2022, despite macroeconomic uncertainty<br>• Fixed income portfolio grew to €2.5 billion, an increase of 30% in the year ended 31 December 2022<br>• *For further information, please refer to section 'Loan portfolio quality' and section 'Business Overview'* | • The structure of the Group's balance sheet is geared towards higher interest rates facilitating immediate growth in net interest income<br>• Grow performing book and increase through high quality new lending over the medium term<br>• Expand fixed income portfolio in 2023, subject to market conditions, to take advantage of the rising yields<br>• Enhance fee and commission income, e.g. on-going review of price list for charges and fees, increase average product holding through cross selling, new sources of revenue through introduction of Digital Economy Platform<br>• Profitable insurance business with further opportunities to grow, e.g. focus on high margin products, leverage on BOC PCL's strong franchise and customer base for more targeted cross selling enabled by digital transformation |
| Improving operating efficiency; by achieving leaner operations through digitisation and automation | • Completion of a VEP in July 2022, which led to the reduction of full time employees by 16% in the year ended 31 December 2022; estimated gross annual saving of approximately €37 million (19%) of staff costs<br>• Rationalisation of branch footprint as 20 branches closed down in 2022, a reduction of 25%<br>• Completion of a small-scale targeted VEP in the first quarter of 2022, by one of BOC PCL's subsidiaries, through which a small number of the Group's employees were approved to leave<br>• Further developments in the Transformation Plan and the digitisation of BOC PCL | • Committed to maintain cost discipline in an inflationary environment<br>• Effectively eliminate restructuring costs as de-risking is largely complete<br>• Enhance procurement control<br>• Committing to maintain total operating expenses for 2023 to a range of €350-€360 million<br><br>The cost to income ratio excluding special levy on deposits and other levies/contributions for 2023 is expected to decrease to mid-40s and to remain around similar levels in 2024 |

**Strategy and Outlook** (continued)

| KEY STRATEGIC PILLARS | ACTION TAKEN IN THE YEAR ENDED 31 DECEMBER 2022 AND TO DATE | PLAN OF ACTION |
|---|---|---|
| Strengthening asset quality | • Completion of Project Helix 3 in November 2022 (sale of NPE portfolio with gross book value of €0.55 billion)<br>• Balance sheet de-risking continued in the year ended 31 December 2022 with further organic NPE reduction of approximately €360 million<br>• NPE ratio reduced to 4.0% as at 31 December 2022, delivering the 2022 NPE ratio target of sub-5%<br>• *For further information, please refer to section 'Loan portfolio quality' and section 'Business Overview'* | • Prevent asset quality deterioration in an uncertain outlook<br>• Maintain strict discipline on new business<br><br>NPE ratio target of <5% for 2023 remains unchanged<br><br>Cost of risk target of 50-80 bps for 2023 remains unchanged, starting to normalise to 40-50 bps from 2024 onwards |
| Enhancing organisational resilience and ESG (Environmental, Social and Governance) agenda; by continuing to work towards building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities | • First bank in Cyprus joining the Partnership for Carbon Accounting Financials (PCAF) which enable BOC PCL to initiate the estimation of financed emissions (Scope 3) derived from loan portfolio<br>• Initiated the development of ESG questionnaire and ESG scorecard that will be introduced in loan origination process<br>• Concluded on the materiality assessment and identification of climate and environmental risks<br>• Determined the decarbonisation strategy for Scope 1 and Scope 2 emissions<br>• Launch of low emission vehicle loan product (hybrid or electric)<br>• Finalised the Sustainable Finance Framework which will enable the issue of Green/Social/Sustainable bonds<br>• Provision of ESG training to the Board of Directors, Senior Management and all staff to increase awareness and skills<br>• Introduced the ESG internal portal communication as well as Green@Work which enable the employees to take energy efficient actions at work<br>• Launched 'AISTHISEIS' - Multi sensory museum experience for people with disabilities<br>• Introduction of a new visa debit card made from recycled plastic collected from the ocean<br>• *For further information, please refer to section 'Business Overview'* | • Set decarbonisation targets on specific sectors and asset classes<br>• Establish ESG questionnaire and ESG scorecard in the loan origination process<br>• Incorporate loan decarbonisation targets in the business strategy of the Group<br>• Evolution of the ESG strategy with a continued focus on the climate and environmental risks<br>• Continue to embed ESG in the Group's culture<br>• Continuous enhancement of structure and corporate governance<br>• Invest in people and promote talent |

**Strategy and Outlook** (continued)

During 2022 the Group delivered strong financial results, exceeding its 2022 financial targets. This was marked by the recovery of revenues driven by the expansion in net interest income, lower operating expenses despite inflationary pressures and strong performance in asset quality, delivering NPE ratio of sub-5%. As a result, the Group achieved a double-digit recurring ROTE in 2022, building momentum throughout the year.

In 2023 the momentum is expected to continue, leading to an upgrade of targeted ROTE to over 13% from over 10% facilitated by the positive gearing to rising interest rates, improved efficiencies, healthy loan portfolio and robust capital position. This lays the foundations to commence meaningful dividend distributions from 2023 onwards, subject to regulatory approval and market conditions. The Group expects to achieve ROTE over 13% for 2024, on the back of stabilising margins and growth of the loan portfolio.

| **Key Metrics** | **2022 Guidance** | **YEAR ENDED 31 DECEMBER 2022** | **FY2023 Previous guidance** | **FY2023[3] Updated guidance** |
|---|---|---|---|---|
| Date | November 2022 | | November 2022 | February 2023 |
| NII | >€350 million | €371 million | €450-€470 million | 40-50% yoy (€520-550 million) |
| Cost to income ratio[1] | Low-50s | 49% | approximately 50% | mid-40s |
| Return on Tangible Equity (ROTE)[2] | approximately 10% (recurring) | 4.3%<br>11.4% (recurring) | >10% | >13% |
| NPE ratio | <5.0% | 4.0% | <5% | <5% |
| Cost of risk | Mid-40 bps | 44 bps | 50-80 bps | 50-80 bps |

1. Calculated using total operating expenses which comprise staff costs and other operating expenses. Total operating expenses do not include the special levy on deposits or other levies/contributions and do not include any advisory or other restructuring costs.
2. Return on Tangible Equity (ROTE) is calculated as Profit after Tax (annualised) divided by the quarterly average Shareholders' equity minus intangible assets.
3. Based on market forward rates as at 23 January 2023.

**Going concern**

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

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

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

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

*Funding and liquidity*
The Directors and Management have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. The Group continues to hold a significant liquidity buffer at 31 December 2022 that can be easily and readily monetised in a period of stress.

**Principal risks and uncertainties - Risk management and mitigation**

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

Information relating to the principal risks the Group faces and risk management is set out in Notes 45 to 48 of the Consolidated Financial Statements and in the 'Risk and Capital Management Report', both of which form part of the Annual Financial Report for the year ended 31 December 2022. In addition, in relation to legal risk arising from litigations, investigations, claims and other matters, further information is disclosed in Note 39 of the Consolidated Financial Statements.

Additionally, the Group is exposed to the risk of changes in the value of property which is held either for own use or as stock of property or as investment property. Stock of property is predominately acquired in exchange for debt and is intended to be disposed of in line with the Group's strategy. Further information is disclosed in Note 27 to the Consolidated Financial Statements.

The Group activities are mainly in Cyprus therefore the Group's performance is impacted by changes in the Cyprus operating environment, as described in the 'Operating environment' section of this Management Report and changes in the macroeconomic conditions and geopolitical developments as described in the 'Risk and Capital Management Report' which forms part of the Annual Financial Report for the year ended 31 December 2022.

In addition, details of the significant and other judgements, estimates and assumptions which may have a material impact on the Group's financial performance and position are set out in Note 5 to the Consolidated Financial Statements.

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

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

The risk factors discussed above and in the reports referenced above should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant, but which may become significant. The challenging conditions in global markets arise due to factors including the Ukraine-Russian war, high interest rate environment, inflationary pressures, COVID-19, the growing threat from cyberattacks and other unknown risks. As a result the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these risks are outside of the Group's control.

Details of the financial instruments and hedging activities of the Group are set out in Note 21 of the Consolidated Financial Statements. Further information on financial instruments is also presented in Notes 45-46 of the Consolidated Financial Statements.

**Events after the reporting date**

No significant non-adjusting events have taken place since 31 December 2022. With respect to the recent developments in financial markets reference is made in section 'Operating Environment' above.

**Capital base**

Total equity excluding non-controlling interests totalled €2,082 million at 31 December 2022, compared to €2,057 million at 31 December 2021. The CET1 ratio (transitional) stood at 15.5% at 31 December 2022 and at 15.1% at 31 December 2021. During the year ended 31 December 2022, the CET1 ratio was positively affected mainly by pre-provision income and the reduction in risk-weighted assets (RWA), mainly as a result of the completion of Project Helix 3, and negatively affected mainly by the phasing-in of IFRS 9 and other transitional arrangements on 1 January 2022, provisions and impairments, the cost of the Voluntary Staff Exit Plan, the payment of AT1 coupon, the movement of the fair value through OCI reserves and other movements. The Total Capital ratio (transitional) at 31 December 2022 stood at 20.6% (2021: 20.0%).

Additional information on the regulatory capital is disclosed in the 'Risk and Capital Management Report' which forms part of this Annual Financial Report.

**Share capital**

As at 31 December 2022, there were 9,597,944,533 issued ordinary shares with a nominal value of €0.10 each. Information about the authorised and issued share capital during 2022 and 2021 is disclosed in Note 35 to the Consolidated Financial Statements.

**Share-based payments - share awards**

During the Annual General Meeting of the shareholders of BOCH which took place on 20 May 2022, a special resolution was approved for the establishment and implementation of the share-based Long-Term Incentive Plan of Bank of Cyprus Holdings Public Limited Company (the '2022 LTIP').

The 2022 LTIP is a share-based compensation plan for executive directors and senior management of the Group. The 2022 LTIP provides for an award in the form of ordinary shares of Bank of Cyprus Holdings Public Limited Company based on certain non-market performance and service vesting conditions. Performance will be measured over a 3-year period. The performance conditions are set by the Human Resources & Remuneration Committee (HRRC) each year and may be differentiated to reflect the Group's strategic targets and employee's personal performance, at its discretion. Performance will be assessed against an evaluation scorecard consistent with the Group's Medium Term Strategic Targets containing both financial and non-financial objectives, and including targets in the areas of: (i) Profitability; (ii) Asset quality; (iii) Capital adequacy; (iv) Risk control & compliance; and (v) Environmental, Social and Governance ('ESG') targets. The awards ordinarily vest in six tranches, with 40% vesting in the year following the year the performance period ends and the remaining 60% vesting in tranches of 12% on each annual anniversary following date of the first vesting date. For any award to vest the employee must be in employment of the Group up until the date of the vesting of such an award.

**Share-based payments - share awards** (continued)

The pre-existing Share Option Plan, which was operating at the level of BOCH, has been superseded by the 2022 LTIP.

**Treasury shares of the Company**

There were no treasury shares of the Company as at 31 December 2022 and 2021.

**Change of control**

There are no significant agreements to which the Company is a party and which take effect following a change of control of the Company following a bid, but the Company is party to a number of funding agreements that may allow the counterparties to alter or terminate the agreements following a change of control. These agreements were not as at 31 December 2022 deemed to be significant in terms of their potential effect on the Group as a whole given the liquidity position of the Group at the time, but the extent of their significance could vary depending on the liquidity position at the time of the change of control.

The Group also has agreements which provide for termination if, upon a change of control of the Company, the Company's creditworthiness is materially worsened.

**Other information**

During 2022 and 2021 there were no restrictions on the transfer of the Company's ordinary shares or securities and no restrictions on voting rights other than the provisions of the Banking Law of Cyprus which requires regulatory approval prior to acquiring shares of the Company in excess of certain thresholds, and the generally applicable provisions including those of the Market Abuse Regulation and applicable takeover legislation. From time to time, specific shareholders may have their rights in shares restricted in accordance with sanctions, anti-corruption, anti-money laundering and/or anti-terrorism compliance, including sanctions relating to events in Ukraine as applicable. The Group's policy is to comply with all applicable laws, including sanctions and other restrictive measures that apply at all times, and the Group may from time to time request individual shareholders to refrain from exercising certain rights to facilitate compliance with such measures or related compliance issues.

Shares of BOCH held by the life insurance subsidiary of the Group as part of its financial assets which are invested for the benefit of insurance policyholders carry no voting rights, pursuant to the insurance law. The Company does not have any shares in issue which carry special control rights.

**Dividends**

Based on the 2021 SREP decision BOCH and the Company were under a regulatory prohibition on equity dividend distribution in 2022, similar to prior years, and therefore no dividends were declared or paid during years 2022 and 2021. This prohibition does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company.

Following the 2022 SREP decision, effective from 1 January 2023, the equity dividend distribution prohibition was amended, for both BOCH and BOC PCL, so that any dividend distribution, shall be subject to regulatory approval.

**Research and development**

In the ordinary course of business, the Group develops new products and services that enhance the customer experience. Additional information is disclosed in the 'Business Overview' section of this Management Report.

**Preparation of periodic reporting**

The Board is responsible for ensuring that the management maintains an appropriate system of internal controls which provides assurance of effective operations, internal financial controls and compliance with rules and regulations. It has the overall responsibility for the Group and approves and oversees the implementation of the Group's strategic objectives, ESG and risk strategy and internal governance.

**Preparation of periodic reporting** (continued)

The Group has appropriate internal control mechanisms, including sound administrative and accounting procedures, Information Technology (IT) systems and controls. The governance framework is subject to review at least once a year.

Policies and procedures have been designed in accordance with the nature, scale and complexity of the Group's operations in order to provide reasonable but not absolute assurance against material misstatements, errors, losses, fraud or breaches of laws and regulations.

The Board, through the Audit Committee and the Risk Committee, conducts reviews on a frequent basis, regarding the effectiveness of the Group's internal controls and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information provided to investors. The reviews cover all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. The role of the Audit Committee is inter alia to ensure the financial integrity and accuracy of the Company's financial reporting.

The Group's financial reporting process is controlled using documented accounting policies and procedures supported by instructions and guidance on reporting requirements, issued to all reporting entities within the Group in advance of each reporting period. The submission of financial information from each reporting entity is subject to sign off by the responsible financial officer.

Further analytical review procedures are performed at Group level. The internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and regulatory requirements and relevant standards, is adequate.

Where from time to time areas of improvement are identified these become the focus of management's attention in order to resolve them and thus strengthen the procedures that are in place. Areas of improvement may include the formalisation of existing controls and the introduction of new information technology controls, as dependency on information technology is ever increasing.

The Annual Financial Report in advance of its submission to the Board is reviewed and approved by the Executive Committee. The Board, through the Audit Committee scrutinises and approves the financial statements, results announcements and the Annual Financial Report and ensures that appropriate disclosures have been made. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the Group's financial statements and other significant disclosures before their publication.

**Service agreements termination**

The service contract of one of the Executive Directors in office as at 31 December 2022 includes a clause for termination, by service of six months' notice to that effect by the Executive Director but provided there is a change of control of BOC PCL as this is defined in the service agreement. In such an event, the Executive Director will be entitled to compensation as this is determined in the service contract. The terms of employment of the other Executive Director are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by BOC PCL based on years of service and for a four-month prior written notice by the Executive Director, in the event of a voluntary resignation.

**Board of Directors**

The members of the Board of Directors of the Company as at the date of this Management Report are listed on page 1. All Directors were members of the Board throughout the year and up to the date of this Management Report except as disclosed below.

Following the shareholders' vote that took place during the Annual General Meeting on 20 May 2022, Mr. Maksim Goldman and Dr. Michael Heger have not been re-appointed to the Board of Directors of the Company.

On 17 February 2023 the Board of Directors nominated Mrs Monique Hemerijck as a new member to the Board of Directors and her official appointment is subject to approval by the ECB.

In accordance with the Articles of Association at each annual general meeting of the Company every Director who has been in office at the completion of the most recent annual general meeting since they were last appointed or reappointed, shall retire from office and offer themselves for re-election if they wish.

The remuneration of the Board of Directors is disclosed in Note 50 to the Consolidated Financial Statements.

**Auditors**

The Auditors, PricewaterhouseCoopers (PwC) Certified Public Accountants and Registered Auditors, were re-appointed as Auditors at the last Annual General Meeting held on 20 May 2022.

**ESG Disclosures**

As a recognised leader of the sustainability agenda in Cyprus, the Group is committed to building long-term resilience and sustainability for our business, the economy and society. With key ambitions and targets set across our sustainability agenda, the Group's focus is on implementation and delivery, including investing in our corporate sustainability reporting and meeting disclosure obligations. We believe transparency is at the heart of corporate sustainability, and in this section, we demonstrate our commitment to principles of openness and accountability through the publication of a range of non-financial corporate sustainability and ESG disclosures.

These disclosures provide a basis for us to consider our commitments, while also imposing additional discipline on the Group to make further progress and to use our influence to advocate for sustainability across our range of stakeholders.

Our non-financial reporting disclosures are provided in the 'ESG Disclosures' section of this Annual Financial Report and are comprised of the Task Force on Climate-related Financial Disclosures (TCFD), the EU Taxonomy Disclosures and the Non-Financial Statement, a requirement under the Non-Financial Reporting Directive (NFRD).

***Task Force on Climate-related Financial Disclosures***

The Group's disclosures are in line with the TCFD Recommendations and Recommended Disclosures which are structured in the core elements of how organisations operate – governance, strategy, risk management and metrics and targets.

The Group is cognisant that the preparation of comprehensive TCFD aligned disclosures is an ongoing process and anticipates that a number of key actions will be necessary in 2023 to further advance our TCFD disclosures, including:

i. setting of Science Based Targets aligned with a climate scenario relating to the loan portfolio, enabling the Group to incorporate further climate-related objectives and targets into the Group's business strategy;
ii. incorporating ESG questionnaires per sector in the loan origination process, which will then be leveraged for deriving an ESG classification and gather ESG and climate related data;
iii. further developing our tracking and data capabilities to facilitate regular and transparent reporting on our progress; further leverage our climate-related opportunities, in particular in relation to the development of the Group's sustainable finance propositions; and
iv. continuing to address feedback from the ECB on the Group's Climate Risk Implementation Plan.

The Company acknowledges the importance of the TCFD requirements for reporting on climate-related risks and opportunities. We have undertaken a comprehensive review of our climate-related risks and opportunities, taking into account the potential impact of climate change on our business environment, and we have been making progress in integrating these considerations into our overall risk management framework. Disclosures have been made for all TCFD Recommendations and Recommended Disclosures, providing information on relevant decisions and on how these were taken. We have made disclosures consistent with the 11 TCFD Recommendations and Recommended Disclosures save for certain items, which we summarise below:

Pillar II – Strategy: Recommendation *'(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning'* and *'(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario'*:

- We disclose qualitatively the impact associated with the identified C&E risks and opportunities.
- The scenario analysis, C&E risk quantification exercise and climate risk stress testing are methods which assist in evaluating and managing the possible effects in the business strategy and financial planning decisions. BOC PCL is currently developing its stress testing methodology which will further help to assess the implications of physical and transition risks on the portfolios, and to inform the business strategy, financial planning and capital planning.
- BOC PCL is currently developing ESG questionnaires and ESG scorecards to incorporate within its loan origination process which will allow it to identify ESG risks, including C&E risks, more granularly. The ESG questionnaires will assist in gathering more accurate data which will then be embedded in the business strategy, financial planning and net-zero strategy.

**ESG Disclosures** (continued)

***Task Force on Climate-related Financial Disclosures*** *(continued)*

- BOC PCL has recently joined the Partnership for Carbon Accounting Financials (PCAF) and estimated Financed Scope 3 GHG emissions associated with the loan portfolio. The Group is in the process to set decarbonization targets on specific sectors and asset classes aligned with specific climate scenarios that will be reflected in the business strategy and financial planning and indicate how the strategy should be updated to address C&E risks and opportunities. As new data and modelling capabilities become available, the Group will continue to build upon the transition and physical risk scenario analyses to indicate the resilience of the strategy and financial plan under these scenarios.

Pillar III – Risk Management: Recommendation '*(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management'*:

- The Group is making substantial progress in further integrating climate risk considerations into its risk management approach, as it continues to integrate climate related risk into its risk culture.
- BOC PCL is currently in the process of incorporating the assessment of ESG and climate matters in the loan origination process, so that the potential impact from ESG and climate risks is reflected in the fundamental elements of the creditworthiness assessment i.e., in Repayment Capacity and Collateral Assessment.
- As part of the risk assessment in the loan origination process, BOC PCL is currently developing ESG questionnaires per sector which will then be leveraged for deriving an ESG classification through an ESG Scorecard. The classification will then be factored in the decision-making process in the form of potential pricing amendment, setting of specific covenants etc.
- The Group is in the process to enhance its Risk Quantification capabilities regarding ESG and climate risks in both the economic and normative perspective with the aim to assess the impact on capital.
- The above-mentioned activities are expected to be implemented to a large extent by the end of 2023.

Pillar IV - Metrics and Targets: Recommendation '*(c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets'*:

- The Group has set several primary KPIs and corresponding targets in its current ESG and climate strategy. The Group discloses its targets regarding Scope 1 and Scope 2 GHG emissions as well as its progress against the targets. However, for Financed Scope 3 GHG emissions, the Group is currently in the process to set decarbonisation targets on specific sectors and asset classes, such as on its mortgage portfolio, that will be aligned with a climate scenario.
- BOC PCL has recently joined the Partnership for Carbon Accounting Financials (PCAF). BOC PCL estimated and disclosed Financed Scope 3 GHG emissions relating to c.88% of Gross Loans and Advances portfolio.
- BOC PCL aims to continuously enhance the data quality used for the estimation of Financed Scope 3 GHG emissions and eliminate the current data gaps as the local market becomes more mature, in order to be in a position to set more accurate targets.
- Future disclosure on Financed Scope 3 GHG emissions, and related risks is reliant on our customers publicly disclosing their GHG emissions and related risks. Currently, there is low availability of relevant public data within the Cyprus market due to the fact that the majority of companies are considered SMEs and will not fall under any regulatory disclosure requirements until 2027.
- Significant progress is expected in the target setting process in 2023.

All the current and future actions are comprehensively reported within our TCFD disclosures under each different pillar of the reporting recommendations.

The Group is committed to providing transparent and consistent climate-related disclosures to its stakeholders, including investors, customers, and employees, and will regularly review and update its disclosure practices in line with evolving regulatory requirements and best practices.

The Group is committed to the principles of the TCFD and will continue to engage with stakeholders and collaborate with industry peers to advance the adoption of climate-related disclosure practices across the business community.

**ESG Disclosures** (continued)

***EU Taxonomy***
This is our second disclosure to the EU Taxonomy, following its introduction for certain companies last year. It provides a classification system of sustainable activities across climate and environmental objectives.

***Non-financial information statement***
EU regulations on non-financial information, require reporting on specific topics such as the environment, social and employee matters, respect for human rights, bribery and corruption. Information required is included in the 'Non-financial information statement' included within the 'ESG Disclosures' section of the Annual Financial Report.

The Corporate Sustainability Report 2022 will be available at the Group's website http://www.bankofcyprus.com (Group/Sustainability/Our Sustainability Reports).

**Efstratios-Georgios Arapoglou**
Chairman

**Panicos Nicolaou**
Chief Executive Officer

31 March 2023

Risk and Capital Management Report 2022

The Risk and Capital Management Report relates to the Company and together with its subsidiaries the Group.

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

## 1. Risk Management Framework (RMF)

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

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

### 1.1 Risk Governance

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

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

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

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

## 1. Risk Management Framework (continued)

### 1.1 Risk Governance (continued)

***Chief Executive Officer (CEO)***

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

***Chief Risk Officer (CRO)***

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

**Accountability and Authority**

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

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

### 1.2 Organisational Model

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

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

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

## 1. **Risk Management Framework** (continued)

### 1.3 Risk Identification

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

To ensure a complete and comprehensive identification of risks the Group has integrated several key processes into its risk identification process, including the:
- Internal Capital Adequacy Assessment Process (ICAAP)
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Stress testing
- Group Financial Plan compilation process
- Regulatory, internal and external reviews and audits

### 1.4 Three Lines of Defence

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

*First Line of Defence*

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

*Second Line of Defence*

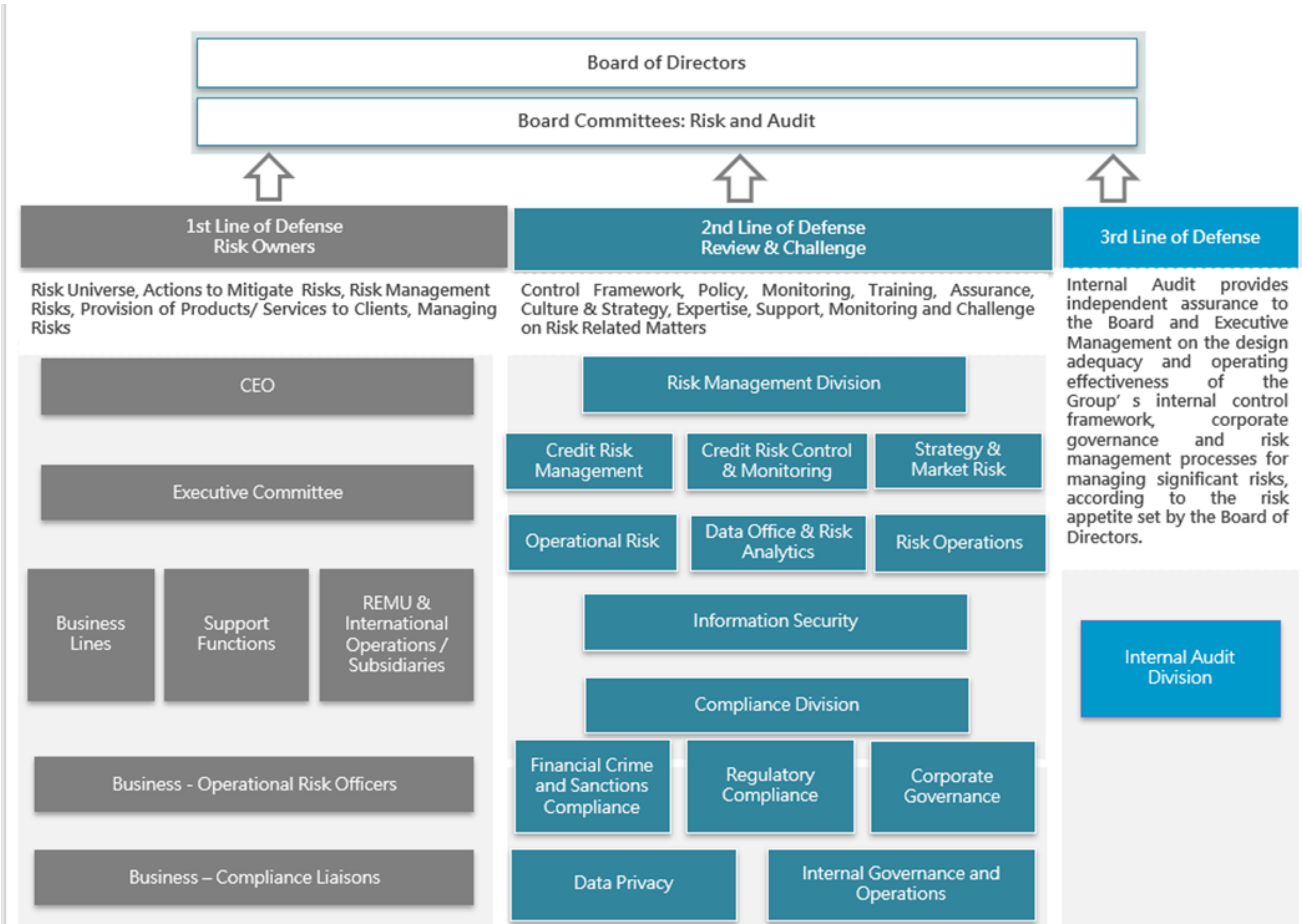
The second line of defence includes functions that oversee the compliance of the first line management and staff with the regulatory framework and risk management principles. It comprises of the RMD, Information Security and Compliance functions. The second line of defence sets the corporate governance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

*Third Line of Defence*

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

**1. Risk Management Framework** (continued)

**1.4 Three Lines of Defence** (continued)



**1. Risk Management Framework** (continued)

## 1.5 Risk Appetite Framework (RAF)

The objective of the Risk Appetite Framework (RAF) is to set out the level of risk that the Group is willing to take in pursuit of its strategic objectives, outlying the key principles and rules that govern the risk appetite setting. It comprises the Risk Appetite Statement (RAS), the associated policies and limits where appropriate, as well as the roles and responsibilities for the implementation and monitoring of the RAF.

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

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

### Risk Appetite Statement (RAS)

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

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

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

### Risk appetite and Financial Plan interaction

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

### Risk Appetite Dashboard monitoring

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

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

## 1. Risk Management Framework (continued)

### 1.6 Risk Taxonomy

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

### 1.7 Risk measurement and reporting

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

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

**Stress testing**

Stress testing is a key risk management tool used by the Group to provide insights on behaviour of different elements of the Group in a crisis scenario and assess Group’s resilience and capital and liquidity adequacy, through the use of a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:
- Understanding the risk profile of the Group
- Evaluating whether there is sufficient capital or adequate liquidity under stressed conditions (ICAAP and ILAAP) and put in place the appropriate mitigants
- Evaluating of the Group’s strategy
- Establishing or revising limits
- Assisting the Group to understand the events that might push the Group outside its risk appetite

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

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

The Group’s stress testing programme embraces a range of forward-looking stress tests and takes all the Group’s material risks into account. These key internal exercises include:
- ICAAP stress testing undertaken in support of the Internal Capital Adequacy Assessment Process. Quarterly ICAAP reviews are also undertaken.
- ILAAP stress testing applied to the funding and liquidity plan to formally assess the Group’s liquidity risks. Quarterly ILAAP reviews are also undertaken.
- Ad hoc stress testing as and if required, including in response to regulatory requests.

**1. Risk Management Framework** (continued)

**1.7 Risk measurement and reporting** (continued)

**Other business and risk type specific stress tests**

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

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

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

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

**The Group will be participating in the 2023 SSM Stress Test as one of the "Other SSM Significant Institutions"**

The Stress Test was officially launched on 31 January 2023 and is expected to be completed by the end of July 2023. The exercise will assess EU banks' resilience to an adverse economic shock and inform the 2023 SREP. The stress test results will be used to update each bank's Pillar 2 Guidance in the context of the Supervisory Review and Evaluation Process (SREP). Qualitative findings on weaknesses in the Group's stress testing practices could also affect Pillar 2 Requirements and inform other supervisory activities.

**ICAAP**

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

The Group undertakes quarterly reviews of its ICAAP results considering the latest actual and forecasted information. The quarterly review identifies whether the Group has adequate capital levels to withstand stress conditions. The quarterly ICAAP reviews of 2022 have indicated that the Group has sufficient capital and available mitigants to support its risk profile, its business and to enable it to meet its regulatory requirements, both in base and stress conditions.

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

**1. Risk Management Framework** (continued)

**1.7 Risk measurement and reporting** (continued)

**ILAAP**

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

The Group undertakes quarterly reviews of its ILAAP through quarterly stress tests reviews. Any material changes since the year-end are assessed in terms of liquidity and funding. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows. The quarterly ILAAP reviews of 2022 indicated that BOC PCL's liquidity position is at a very comfortable level and that BOC PCL maintains liquidity resources which are adequate to ensure its ability to meet obligations as they fall due under ordinary and stressed conditions.

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

## 2. Recovery and resolution planning

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

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

## 3. Risk Culture

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

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

## 4. Principal Risks

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

### 4.1 Credit Risk

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

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

Further information and analysis relating to credit risk is set out in Note 45 of the Consolidated Financial Statements. Furthermore, the Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment/expected credit losses (ECLs) are set out in Note 5 'Significant and other judgements, estimates and assumptions' of the Consolidated Financial Statements for the year ended 31 December 2022 (the Consolidated Financial Statements) included within the Annual Financial Report for 2022.

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

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

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

**4. Principal Risks** (continued)

**4.1 Credit Risk** (continued)

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

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

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

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

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

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

**Country Risk**

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

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

**4. Principal Risks** (continued)

**4.1 Credit Risk** (continued)

**Credit Risk Mitigation**

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

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

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

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

**Systems**

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

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

**4. Principal Risks** (continued)

**4.1 Credit Risk** (continued)

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

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

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

## 4. **Principal Risks** (continued)

### 4.1 **Credit Risk** (continued)

| | Gross loans and advances to customers | | | | 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 | |
| **31 December 2021** | **Group gross customer loans and advances[4,5]** | **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: NPEs** |
| | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** |
| **Loans and advances to customers** | | | | | | | | |
| **General governments** | **45,357** | - | - | - | **29** | - | - | - |
| **Other financial corporations** | **127,889** | 4,771 | 12,759 | 4,487 | **3,393** | 1,909 | 1,948 | 1,658 |
| **Non-financial corporations** | **5,209,599** | 277,309 | 1,009,094 | 215,157 | **144,252** | 115,869 | 86,847 | 79,329 |
| Of which: Small and Medium sized Enterprises[6] (SMEs) | ***4,052,571*** | *123,558* | *734,362* | *71,269* | ***83,757*** | *60,892* | *39,263* | *32,499* |
| Of which: Commercial real estate[6] | ***3,968,375*** | *171,215* | *900,697* | *136,257* | ***100,301*** | *82,872* | *69,309* | *64,282* |
| **Non-financial corporations by sector** | | | | | | | | |
| Construction | **512,952** | 28,418 | | | **21,224** | | | |
| Wholesale and retail trade | **964,891** | 40,457 | | | **28,586** | | | |
| Accommodation and food service activities | **1,137,443** | 4,323 | | | **3,351** | | | |
| Real estate activities | **1,210,664** | 106,841 | | | **31,821** | | | |
| Manufacturing | **326,535** | 14,354 | | | **8,094** | | | |
| Other sectors | **1,057,114** | 82,916 | | | **51,176** | | | |
| **Households** | **4,755,100** | 434,040 | 430,007 | 238,066 | **153,865** | 136,902 | 70,667 | 64,589 |
| Of which: Residential mortgage loans[6] | ***3,734,448*** | *369,147* | *372,141* | *208,387* | ***112,711*** | *105,764* | *56,145* | *52,219* |
| Of which: Credit for consumption[6] | ***581,197*** | *54,238* | *61,824* | *31,165* | ***28,824*** | *22,167* | *13,290* | *11,430* |
| | **10,137,945** | **716,120** | **1,451,860** | **457,710** | **301,539** | **254,680** | **159,462** | **145,576** |
| **Loans and advances to customers classified as held for sale** | **555,789** | **553,620** | **245,452** | **243,495** | **305,419** | **304,665** | **118,094** | **117,377** |
| **Total on-balance sheet** | **10,693,734** | **1,269,740** | **1,697,312** | **701,205** | **606,958** | **559,345** | **277,556** | **262,953** |

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

**4. Principal Risks** (continued)

**4.2 Market Risk**

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

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

Each of the risks above is defined and further analysed in the subsections below. Furthermore, additional information relating to Market risk is set out in Note 46 of the Consolidated Financial Statements.

**Interest Rate Risk in the Banking Book**

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

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

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

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

**Currency / foreign exchange risk**

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

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

**4. Principal Risks** (continued)

**4.2 Market Risk** (continued)

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

**Equities Price Risk**

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

The Group has an outstanding equity and fund portfolio in its books. The equity portfolio mainly relates to certain legacy positions acquired through loan restructuring activity and specifically through debt for equity swaps, whereas the fund portfolio mainly relates to the insurance operations of the Group. The policy is to manage the current equity portfolio with the intention to run it down by selling all positions for which there is a market. No new purchases of equities are allowed without ALCO approval. Nevertheless, new equities may be obtained from repossessions of collateral for loans. Analysis of equity and fund holdings are reported to ALCO on a quarterly basis. The RC is also updated on a quarterly basis. Analysis of the positions the Group maintains as at 31 December 2022 is presented in Note 20 of the Consolidated Financial Statements.

**Debt Securities Price Risk**

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

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

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

The debt security portfolio is management by Group Treasury and governed by the Bond Investment Policy. The annual bond investment strategy is proposed by Treasury and approved by ALCO. Treasury proceeds with bond investment amounts approved through the Financial Plan, within the Bond Investment Policy and within limits and parameters set in the various policies and frameworks. Analysis of the positions the Group maintains as at 31 December 2022 is presented in Note 20 of the Consolidated Financial Statements.

**Property Price Risk**

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

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

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

## 4. Principal Risks (continued)

### 4.2 Market Risk (continued)

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

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

### 4.3 Liquidity and Funding Risk

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

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

Further information relating to Group risk management in relation to liquidity and funding risk is set out in Note 47 of the Consolidated Financial Statements. Additionally, information on encumbrance and liquidity reserves is provided below.

#### 4.3.1 Encumbered and unencumbered assets

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

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €3,631,269 thousand as at 31 December 2022 (2021: €4,489,424 thousand).

An asset is classified as unencumbered if it has not been pledged as collateral against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can potentially be pledged and those that are not readily available to be pledged. As at 31 December 2022, the Group held €19,468,233 thousand (2021: €17,468,507 thousand) of unencumbered assets that can potentially be pledged and can be used to support potential liquidity funding needs and €659,311 thousand (2021: €1,324,118 thousand) of unencumbered assets that are not readily available to be pledged for funding requirements in their current form.

**4. Principal Risks** (continued)

**4.3 Liquidity and Funding Risk** (continued)

**4.3.1 Encumbered and unencumbered assets** (continued)

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

| 31 December 2022 | Encumbered | Unencumbered | | Total |
|---|---|---|---|---|
| | Pledged as collateral | Which can potentially be pledged | Which are not readily available to be pledged | |
| | €000 | €000 | €000 | €000 |
| Cash and other liquid assets | 73,557 | 9,391,365 | 307,147 | 9,772,069 |
| Investments | 284,343 | 2,393,796 | 25,564 | 2,703,703 |
| Loans and advances to customers | 3,273,369 | 6,397,745 | 282,138 | 9,953,252 |
| Property | - | 1,285,327 | 44,462 | 1,329,789 |
| **Total on-balance sheet** | **3,631,269** | **19,468,233** | **659,311** | **23,758,813** |
| **31 December 2021** | | | | |
| Cash and other liquid assets | 102,463 | 8,958,427 | 461,625 | 9,522,515 |
| Investments | 1,260,158 | 859,383 | 19,622 | 2,139,163 |
| Loans and advances to customers | 3,126,803 | 6,248,132 | 461,470 | 9,836,405 |
| Non-current assets held for sale | - | - | 358,951 | 358,951 |
| Property | - | 1,402,565 | 22,450 | 1,425,015 |
| **Total on-balance sheet** | **4,489,424** | **17,468,507** | **1,324,118** | **23,282,049** |

Encumbered assets primarily consist of loans and advances to customers and investments in debt securities. These are mainly pledged for the funding facilities of the European Central Bank (ECB) and for the covered bond (Notes 30 and 47 of the Consolidated Financial Statements for the year ended 31 December 2022 respectively). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and (ii) trade finance transactions and guarantees issued. It may also be used as part of the supplementary assets for the covered bond.

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

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

**4. Principal Risks** (continued)

**4.3 Liquidity and Funding Risk** (continued)

### 4.3.1 Encumbered and unencumbered assets (continued)

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

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

The carrying and fair value of the encumbered and unencumbered investments of the Group as at 31 December 2022 and 2021 are as follows:

| **31 December 2022** | **Carrying value of encumbered investments** | **Fair value of encumbered investments** | **Carrying value of unencumbered investments** | **Fair value of unencumbered investments** |
|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** |
| Equity securities | - | - | 194,841 | 194,841 |
| Debt securities | 284,343 | 265,696 | 2,224,519 | 2,150,383 |
| **Total investments** | **284,343** | **265,696** | **2,419,360** | **2,345,224** |
| **31 December 2021** | | | | |
| Equity securities | - | - | 208,775 | 208,775 |
| Debt securities | 1,260,158 | 1,267,666 | 670,230 | 668,201 |
| **Total investments** | **1,260,158** | **1,267,666** | **879,005** | **876,976** |

### 4.3.2 Liquidity regulation

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

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

As at 31 December 2022, the Group was in compliance with all regulatory liquidity requirements. As at 31 December 2022, the LCR stood at 291% for the Group (compared to 298% at 31 December 2021) and was in compliance with the minimum regulatory requirement of 100%. As at 31 December 2022 the Group’s NSFR was 168% (compared to 147% at 31 December 2021) and was in compliance with the minimum regulatory requirement of 100%.

**4. Principal Risks** (continued)

**4.3 Liquidity and Funding Risk** (continued)

**4.3.3 Liquidity reserves**

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

| Composition of the liquidity reserves | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | Internal Liquidity Reserves | Liquidity reserves as per LCR Delegated Regulation (EU) 2015/61 LCR eligible | | Internal Liquidity Reserves | Liquidity reserves as per LCR Delegated Regulation (EU) 2015/61 LCR eligible | |
| | | Level 1 | Level 2A & 2B | | Level 1 | Level 2A & 2B |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Cash and balances with central banks | **9,379,888** | **9,379,888** | **-** | 9,064,840 | 9,064,840 | - |
| Placements with banks | **55,825** | **-** | **-** | 118,752 | - | - |
| Liquid investments | **1,827,698** | **1,344,032** | **214,800** | 500,930 | 304,758 | 147,562 |
| Available ECB Buffer | **147,844** | **-** | **-** | 80,786 | - | - |
| **Total** | **11,411,255** | **10,723,920** | **214,800** | 9,765,308 | 9,369,598 | 147,562 |

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).

Under Liquidity reserves as per LCR, balances in Nostro accounts 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 additional unencumbered liquid bonds and are shown at market values net of haircuts based on ECB methodology and haircuts.

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

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

## 4. Principal Risks (continued)

### 4.4 Operational Risk

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

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

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

***Operational Risk Management (ORM) Framework***

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

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

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

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

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

Risk Appetite

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

*Risk Control Self-Assessment (RCSA)*

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

## 4. Principal Risks (continued)

### 4.4 Operational Risk (continued)

*Incident recording and analysis*

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

Operational risk loss events are classified and recorded in the Group's Risk and Compliance Management System (RCMS) system, which serves as an enterprise tool integrating all risk-control data (e.g., risks, loss incidents, KRIs) to provide a holistic view with regards to risk identification, corrective action and statistical analysis. During the year ended 31 December 2022, 466 loss events with gross loss equal to or greater than €1,000 each were recorded including incidents of prior years (mostly legal cases) for which losses materialised in 2022 (2021: 323 loss events).

*Key Risk Indicators (KRIs)*

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

*Operational Risk Capital Requirements and ICAAP*

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

*Training and awareness*

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

*Reporting*

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

#### 4.4.1 Fraud Risk Management

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

**4. Principal Risks** (continued)

**4.4 Operational Risk** (continued)

### 4.4.2 Third-Party Risk Management

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

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

## 5. Other principal risks

### 5.1 Business Model and Strategic Risk

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

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

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

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

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

## 5. Other principal risks (continued)

### 5.2 Geopolitical Risk

Cyprus is a small, open, services-based economy, with a large external sector and high reliance on tourism and international business services. As a result, external factors which are beyond the control of the Group, including developments in the European Union and in the global economy, or in specific countries with which Cyprus maintains close economic and investment links can have a significant impact on domestic economic activity. A number of macro and market related risks, including weaker economic activity, the interest rate environment and higher competition in the financial services industry, could negatively affect the Group's business environment, results and operations. The continued war in Ukraine and related increases in global inflationary pressures due to higher energy prices as well as supply chain disruptions have led to a downward revision in global growth forecasts for 2023 and 2024. Major central banks have responded by tightening monetary policy and market interest rates increased significantly during 2022 amid periods of very high market volatility.

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

The March 2023 developments in the financial markets, particularly in the US but also in Europe to a lesser extent, have been unprecedented. However, the forceful intervention of the US authorities to pre-empt the risk of financial instability in the banking system in response to the failures of the Silicon Valley Bank and the Signature Bank, as well as the Credit Suisse deal brokered by the Swiss government, have reassured the markets. Following the Credit Suisse deal, the Single Resolution Board, the European Banking Authority and the ECB Banking Supervision issued a statement welcoming the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability and noting that the European banking sector is resilient, with robust levels of capital and liquidity.

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

### 5.3 Legal Risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings and regulatory investigations against the Group (Note 39 of the Consolidated Financial Statements for the year ended 31 December 2022). In the event that legal issues are not properly dealt with by the Group, this may result in financial and/or reputational loss to the Group.

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

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

### 5.4 Technology Risk

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

## 5. Other principal risks (continued)

### 5.4 Technology Risk (continued)

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

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

### 5.5 Digital Transformation Risk

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

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

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

### 5.6 Information security and cyber risk

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

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

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

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

## 5. Other Principal Risks (continued)

### 5.7 Regulatory Compliance Risk

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

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

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

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

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

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

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

## 5. Other Principal Risks (continued)

### 5.8 Insurance risk and re-insurance risk

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

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

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

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

### 5.9 Climate Risk

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

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

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

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

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

## 5. Other Principal Risks (continued)

### 5.9 Climate Risk (continued)

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

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

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

## 6. Emerging Risks

The Group defines emerging risks as new risks or existing risks that may manifest in a different way, with the potential to threaten the execution of our strategy or operations over a medium-term horizon. The internal and external risk environment of the Group as well as macro-themes are assessed to identify such emerging risks that may require escalation and implementation of suitable mitigation actions. Quarterly reporting of emerging risks to the RC and the EXCO are performed to ensure all significant risks are escalated effectively for discussion and action. Currently, the main emerging risks considered by the Group are the following:

### 6.1 Banking industry transformation risks

The rapid and increasing pace of change of the banking industry landscape, from new fintech competitors to the increase in sophistication of cyber threats, present a challenge to the Group's operations, client-base and growth potential. The Group is on a digital transformation journey through investment in IT, training, automation, monitoring of industry standards and continual assessment of new initiatives.

### 6.2 Geopolitical, macroeconomic and environmental risks

Global and regional tensions have heightened with the potential to further deteriorate, impacting the economic stability of the region. Monetary and fiscal policy changes as seen by the increase in interest rates by central banks across the globe can have significant and far-reaching consequences for our clients and the Group. Continuous monitoring of geopolitical and economic developments along with scenario analyses help the Group assess risk appetite on a rolling basis in light of the changing factors.

### 6.3 Regulatory risks

Failure to properly and timely align with the ever-changing regulatory environment presents an emerging risk to the Group. New and existing regulations impacting the Group are Basel IV, ESG and climate risk related regulation, DORA (Digital Operational Resilience Act) and IRRBB (interest rate risk in the banking book). Proactive planning, project management as well as training will help meet future regulatory requirements. The Group continues to actively engage with regulatory and industry bodies to stay abreast of changes and to be able to help drive the industry reaction.

## 7. Capital management

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

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

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

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

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

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

**7. Capital management** (continued)

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

The European Council's proposal on CRR and CRD was published on 8 November 2022. During 2023, the finalisation of the European Parliament's position is expected, which will be followed by the trilogue process that will eventually result in the final versions of the directives and regulations. It is expected that the 2021 Banking Package will enter into force on 1 January 2025; and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

The CET1 ratio of the Group as at 31 December 2022 stands at 15.5% and the Total Capital ratio at 20.6% on a transitional basis. The ratios as at 31 December 2022 include profits for the year ended 31 December 2022.

| **Minimum CET1 Regulatory Capital Requirements** | **2022** | **2021** |
|---|---|---|
| Pillar I – CET1 Requirement | 4.50% | 4.50% |
| Pillar II – CET1 Requirement | 1.83% | 1.69% |
| Capital Conservation Buffer (CCB)* | 2.50% | 2.50% |
| Other Systematically Important Institutions (O-SII) Buffer | 1.25% | 1.00% |
| Countercyclical Buffer (CcyB) | 0.02% | 0.00 |
| **Minimum CET1 Regulatory Requirements** | **10.10%** | **9.69%** |

| **Minimum Total Capital Regulatory Requirements** | **2022** | **2021** |
|---|---|---|
| Pillar I – Total Capital Requirement | 8.00% | 8.00% |
| Pillar II – Total Capital Requirement | 3.26% | 3.00% |
| Capital Conservation Buffer (CCB)* | 2.50% | 2.50% |
| Other Systematically Important Institutions (O-SII) Buffer | 1.25% | 1.00% |
| Countercyclical Buffer (CcyB) | 0.02% | 0.00 |
| **Minimum Total Capital Regulatory Requirements** | **15.03%** | **14.50%** |

** Fully phased in as of 1 January 2019*

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

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

In the context of the annual SREP conducted by the ECB in 2021 and based on the final 2021 SREP decision received in February 2022, effective from 1 March 2022, the P2R was set at 3.26%, compared to the previous level of 3.00%. The additional P2R add-on of 0.26% relates to ECB's prudential provisioning expectations as per the 2018 ECB Addendum and subsequent ECB announcements and press release in July 2018 and August 2019. This component of the P2R add-on takes into consideration Project Helix 3. It is dynamic and can vary on the basis of in-scope NPEs and level of provisioning. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer (P2G).

## 7. **Capital management** (continued)

Following the annual SREP performed by the ECB in 2022 and based on the final SREP decision received in December 2022 effective from 1 January 2023, the P2R has been revised to 3.08%, compared to the previous level of 3.26%. The revised P2R includes a revised P2R add-on of 0.33% relating to ECB's prudential provisioning expectations. When disregarding the P2R II add-on relating to ECB's prudential provisioning expectations, the P2R is reduced from 3.00% to 2.75%. As a result, the Group's minimum phased in CET1 capital ratio and Total Capital ratio requirements were reduced when disregarding the phasing in of the O-SII Buffer. The Group's minimum phased-in CET1 capital ratio requirement was set at 10.25%, comprising a 4.50% Pillar I requirement, a P2R of 1.73%, the CCB of 2.50%, the O-SII Buffer of 1.50% (fully phased in on 1 January 2023) and the CcyB of 0.02%. The Group's minimum phased-in Total Capital requirement was set at 15.10%, comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a P2R of 3.08%, the CCB of 2.50%,the O-SII Buffer of 1.50% and the CcyB of 0.02%. The ECB has also maintained the P2G unchanged.

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

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

The capital position of the Group and BOC PCL as at 31 December 2022 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

The CBC, in accordance with the Macroprudential Oversight of Institutions Law of 2015, sets, on a quarterly basis, the CcyB rates in accordance with the methodology described in this law. The CBC has set the level of the CcyB rate for risk weighted exposures in Cyprus at 0.00% for the years 2021 and 2022. The CcyB for the Group as at 31 December 2022 has been calculated at c.0.02%.

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the countercyclical buffer rate from 0.00% to 0.50% of the total risk exposure amount in Cyprus of each licensed credit institution incorporated in Cyprus. The new rate of 0.50% must be observed as from 30 November 2023. Based on the above, the CcyB for the Group is expected to increase.

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

## 7. Capital management (continued)

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

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 | |
|---|---|---|---|---|
| | **31 December 2022[1]** | 31 December 2021[2] | **31 December 2022[1]** | 31 December 2021[2] |
| | **€000** | €000 | **€000** | €000 |
| Transitional Common Equity Tier 1 (CET1) [3] | **1,566,360** | 1,617,445 | **1,531,366** | 1,592,455 |
| Transitional Additional Tier 1 capital (AT1) | **220,000** | 220,000 | **220,000** | 220,000 |
| Tier 2 capital (T2) | **300,000** | 300,000 | **300,000** | 300,000 |
| **Transitional Total Regulatory Capital** | **2,086,360** | 2,137,445 | **2,051,366** | 2,112,455 |
| Risk weighted assets – credit risk[4] | **9,104,933** | 9,678,758 | **9,150,831** | 9,697,351 |
| Risk weighted assets – market risk | **-** | - | **-** | - |
| Risk weighted assets – operational risk | **1,011,639** | 1,007,438 | **997,720** | 995,450 |
| **Total risk weighted assets** | **10,116,572** | 10,686,196 | **10,148,551** | 10,692,801 |
| | | | | |
| | **%** | % | **%** | % |
| **Transitional Common Equity Tier 1 ratio** | **15.5** | 15.1 | **15.1** | 14.9 |
| **Transitional Total Capital ratio** | **20.6** | 20.0 | **20.2** | 19.8 |
| **Leverage ratio** | **7.1** | 7.4 | **7.0** | 7.3 |

1 Includes profits for the year ended 31 December 2022.

2 As per 2021 Annual Financial Report for the year ended December 2021.

3 CET1 includes regulatory deductions, comprising, amongst others, intangible assets amounting to €30,421 thousand for the Group and €25,445 thousand for BOC PCL as at 31 December 2022 (31 December 2021: €30,032 thousand for the Group and €26,452 thousand for BOC PCL). As at 31 December 2022 an amount of €12,934 thousand is considered prudently valued for CRR purposes and it is not deducted from CET1 (31 December 2021: €15,394 thousand).

4 Includes Credit Valuation Adjustments (CVA).

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 | |
|---|---|---|---|---|
| | **31 December 2022[1,2]** | 31 December 2021[1,3] | **31 December 2022[1]** | 31 December 2021[1,3] |
| | **%** | % | **%** | % |
| Common Equity Tier 1 ratio | **14.7** | 13.7 | **14.3** | 13.5 |
| Total capital ratio | **19.9** | 18.7 | **19.5** | 18.4 |
| Leverage ratio | **6.8** | 6.8 | **6.6** | 6.7 |

1.IFRS 9 and application of the temporary treatment of certain FVOCI instruments in accordance with Article 468 of CRR fully loaded.

2. Includes profits for the year ended 31 December 2022.

3.As per 2021 Annual Financial Report for the year ended December 2021.

## 7. Capital management (continued)

During the year ended 31 December 2022 CET1 ratio was negatively affected mainly by the phasing in of IFRS 9 and other transitional adjustments on 1 January 2022, provisions and impairments, the cost of VEP, the payment of AT1 coupon, the movement in the fair value through OCI reserves and other movements and was positively affected by pre-provision income and the decrease in risk-weighted assets mainly as a result of the completion of Project Helix 3. As a result, the CET1 ratio has increased by approximately 30 bps during the year ended 31 December 2022.

The ECB, as part of its supervisory role, completed an onsite inspection and review on the value of the Group's foreclosed assets with reference date 30 June 2019. The findings relate to a prudential charge which will decrease based on BOC PCL's progress in disposing the properties in scope. As a result of the prudential charge deducted from own funds as at 31 December 2022, the impact on the Group's CET1 ratio is 26 bps.

In April 2021, Bank of Cyprus Holdings Public Limited Company ('BOCH') issued €300 million unsecured and subordinated Tier 2 Capital Notes (the 'New T2 Notes') and immediately after, BOCH and BOC PCL entered into an agreement pursuant to which BOCH on-lent to BOC PCL the entire €300 million proceeds of the issue of the New T2 Notes on terms substantially identical to the terms and conditions of the New T2 Notes. At the same time, BOC PCL invited the holders of its €250 million Fixed Rate Reset Tier 2 Capital Notes due January 2027 (the 'Old T2 Notes') to tender their Old T2 Notes for purchase by BOC PCL, after which Old T2 Notes of €43 million remained outstanding.

At a meeting held on 30 November 2021, the Board of Directors resolved to exercise BOC PCL's option to redeem the remaining nominal amount outstanding of the Old T2 Notes. The outstanding Old T2 Notes were redeemed on 19 January 2022.

*Transitional arrangements*

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

The amount added each year for the 'static component' 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, with the impact being fully phased-in (100%) by 1 January 2023. The cumulative impact on the capital position as at 31 December 2021 was 50% and as at 31 December 2022 at 75%, with the impact being fully phased-in (100%) by 1 January 2023.

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

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

## 7. Capital management (continued)

***Capital requirements of subsidiaries***

The insurance subsidiaries of the Group, the General Insurance of Cyprus Ltd and Eurolife Ltd, comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO), complies with the minimum capital adequacy ratio requirements. From 2021 the new prudential regime for Investment Firms ('IFs') as per the Investment Firm Regulation (EU) 2019/2033 ('IFR') on the prudential requirements of IFs and the Investment Firm Directive (EU) 2019/2034 ('IFD') on the prudential supervision of IFs came into effect. Under the new regime CISCO has been classified as Non-Systemic 'Class 2' company and is subject to the new IFR/IFD regime in full. The regulated UCITS management company of the Group, BOC Asset Management Ltd, complied with the regulatory capital requirements of the Cyprus Securities & Exchange Commission (CySEC) laws and regulations. In February 2023, the activities of BOC Asset Management Ltd were absorbed by CISCO and BOC Asset Management Ltd was dissolved. The payment services subsidiary of the Group, JCC Payment Services Ltd, complies with the regulatory capital requirements.

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

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

In February 2023, BOC PCL received notification from the SRB and CBC of the final decision for the binding MREL for BOC PCL, determined as the preferred resolution point of entry. As per the decision, the final MREL requirement is set at 24.35% of risk weighted assets and 5.91% of Leverage Ratio Exposure (LRE) (as defined in the CRR) and must be met by 31 December 2025. Furthermore, BOC PCL must comply since 1 January 2022 with an interim requirement of 14.94% of risk weighted assets and 5.91% of LRE. The own funds used by BOC PCL to meet the Combined Buffer Requirement (CBR) are not eligible to meet its MREL requirements expressed in terms of risk weighted assets. BOC PCL must comply with the MREL requirement at the consolidated level, comprising BOC PCL and its subsidiaries. The decision is subject to annual review by the competent authorities, updated also as changes in capital requirements become effective.

As at 31 December 2022, the MREL ratio calculated according to the SRB's eligibility criteria currently in effect, and based on internal estimate, stood at 21.4% of RWAs and at 10.1% of LRE. As at 1 January 2023, the MREL ratio stood at 20.5% of RWAs and 9.8% of LRE, calculated on the same basis. The ratios as at 31 December 2022 and 1 January 2023, include profits for the year ended 31 December 2022. The MREL ratio expressed as a percentage of RWAs does not include capital used to meet the CBR amount, which stood at 3.77% as at 31 December 2022 and increased to 4.02% on 1 January 2023 and will further increase on 30 November 2023 following increase in CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus as announced by the CBC.

BOC PCL will continue to evaluate opportunities to advance the build-up of its MREL liabilities.

# ESG DISCLOSURES 2022

The ESG Disclosures Report relates to the Company and together with its subsidiaries the Group.

**PART A:**

**Task Force on Climate-related Financial Disclosures (TCFD)**

Climate change is one of the greatest challenges. The global focus, in 2022, was on environmental-related issues with events such as Conference of Parties (COP) 27 on climate change and COP 15 on nature and biodiversity, keeping these topics to the forefront of public and political discourse. As part of its vision to be the leading financial hub in Cyprus, the Group is determined to lead the transition of Cyprus to a sustainable future. The Group systematically moves forward to the alignment with sustainable banking and continues to embed Environmental, Social and Governance ('ESG') in its infrastructure, strategies and policies. The Group's commitment to integrate climate risk considerations into all relevant aspects of the decision-making, governance, strategy and risk management highlights the Group's aspiration to be a frontrunner in the climate space in Cyprus. This is the first TCFD report published by the Company, presenting the current activities and future plans in the climate field.

| ***TCFD Recommendations*** | | *Pages in our disclosures* |
|---|---|---|
| *Governance* | Board's oversight of climate-related risks and opportunities | → 78–81, 83-84, 101 |
| *Governance* | Management's role in assessing and managing climate-related risks and opportunities | → 79, 82, 84-85 |
| *Strategy* | Climate-related risks and opportunities (short, medium and long term) | → 86-99 |
| *Strategy* | Impact of climate-related risks and opportunities on business, strategy and financial planning | → 94-97, 99-101 |
| *Strategy* | Resilience of strategy, considering different climate-related scenarios, including a 2°C or lower scenario | → 88-89, 99-101, 106-107 |
| *Risk Management* | Processes for identifying and assessing climate-related risks | → 92-98 |
| *Risk Management* | Processes for managing climate-related risks | → 99 |
| *Risk Management* | Integration of processes for identifying, assessing and managing climate-related risks into overall risk management | → 99-102 |
| *Metrics and targets* | Metrics to assess climate-related risks and opportunities in line with strategy and risk management process | → 102-110 |
| *Metrics and targets* | Scope 1, 2 and 3 GHG emissions and the related risks | → 102-110 |
| *Metrics and targets* | Targets used to manage climate-related risks and opportunities and performance against targets | → 102-110 |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance**

The Group considers climate action as one of its key priorities. To reflect this strong commitment, climate-related risks and opportunities are integrated into the governance structure. The Group is committed to high standards of governance that are consistent with regulatory expectations and evolving best practices.

**Organisational structure of the governance**

The following climate change and net zero-related governance diagram illustrates how the Group's governance is currently structured.

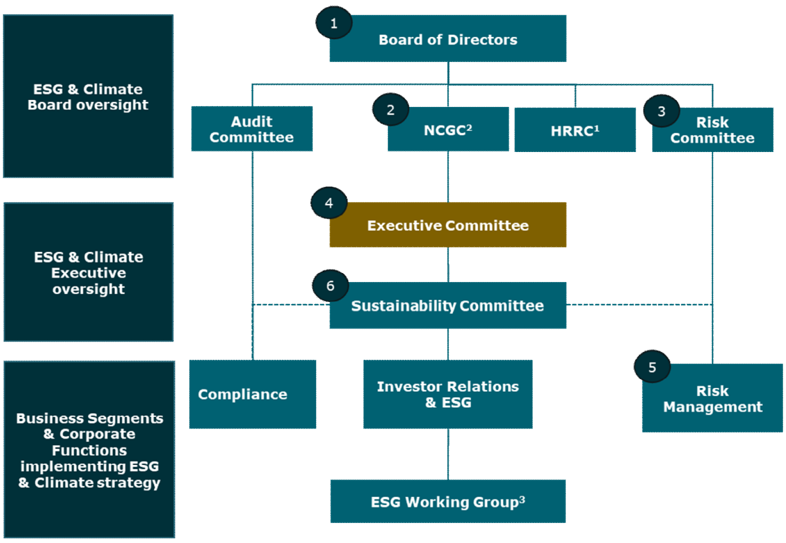
BOC PCL's governance structure comprises of the following statutory bodies:

- The Board of Directors (the 'Board')
- Board Committees
- Senior Management Committees

## **Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

### **Pillar I - Governance** (continued)

### **Organisational structure of the governance** (continued)




1. The Board, through the NCGC[2] and Risk Committee, oversees the implementation of the Group's ESG and climate strategy. In order to adequately assess climate risks and opportunities, the Board draws on expertise both internally and externally.
2. NCGC[2] provides oversight to the Group's ESG and climate strategy aimed at achieving present and future economic prosperity, environmental integrity, climate stability and social equity for the Group and its stakeholders.
3. Risk Committee identifies, assesses, controls and monitors financial / economic risks and non-financial risks (including operational, technological, tax, legal, reputational, and compliance, and ESG including climate-related & environmental risks (C&E)) which the Group faces in cooperation with the responsible Board Committees.
4. EXCO recommends to NCGC[2] all ESG and climate related matters and policies (excluding ESG and climate risks matters and policies) for approval.
5. ESG and climate risks related policies and matters are discussed in Sustainability Committee and submitted by Risk Management Function directly to Risk Committee for approval, also notifying EXCO.
6. Sustainability Committee reports to EXCO.
7. ECCC[4] undertakes consultancy role to the NCGC[2] when required.

Reporting
Collaboration and support

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

1

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance** (continued)

**Board of Directors and Board Committees**

Oversight and approval of Group's climate strategy and how it manages climate-related and environmental ('C&E') risks and opportunities.

| Board Committee | Role and Responsibilities |
|---|---|
| **Risk Committee** | The Risk Committee ('RC') has been delegated authority by the Board and consists of 3 non-executive members of the Board, who possess appropriate knowledge, skills and expertise to understand and monitor the strategy regarding the risk appetite of the Group.<br><br>The main purpose of the RC is to review, on behalf of the Board, the aggregate Risk Profile of the Group, including performance against Risk Appetite for all risk types and ensure both Risk Profile and Risk Appetite remain appropriate.<br><br>The RC is responsible for the following:<br>• Identify, assess, control and monitor financial/economic risks and non-financial risks (including operational, technological, tax, legal, reputational, and compliance, and ESG including C&E risks) which the Group faces in cooperation with the responsible Board Committees.<br>• Ensure that the Group's overall Risk Profile and Risk Appetite remain appropriate given the evolving external environment, the key issues and themes impacting the Group and the internal control environment.<br>• Ensure effective and on-going monitoring and review of the Group's management or mitigation of risk, including the Group's control processes, training and culture, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.<br>• Report to the Board any current or emerging topics relating to ESG risks and matters, including C&E risks and matters, that are expected to materially affect the business, operations, performance, or public image of the Group or are otherwise pertinent to it and its stakeholders and if appropriate, detail actions taken in relation to the same.<br>• Determine the principles that should govern the management of risks (including ESG and C&E risks), through the establishment of appropriate Risk Policies.<br>• Review and discuss with management the overall ESG strategy including the strategy to manage C&E risks, and whether the Company should initiate any additional actions or engage with any stakeholders regarding potential key ESG matters, including C&E matters.<br>• Review and monitor key enterprise wide ESG including C&E metrics, targets, KPIs, KRIs and related goals and monitor the progress towards achieving targets and benchmarks. |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance** (continued)

**Board of Directors and Board Committees** (continued)

| Board Committee | Role and Responsibilities |
|---|---|
| **Nominations and Corporate Governance Committee** | The Nominations and Corporate Governance Committee ('NCGC') has been delegated authority by the Board and consists of 4 non-executive members of the Board, who possess appropriate knowledge, skills and expertise to provide oversight to the Group's sustainability strategy aimed at achieving present and future economic prosperity, environmental integrity, climate stability and social equity for the Group and its stakeholders.<br><br>The NCGC is responsible for the following:<br>• Develop a strategy for ESG, including C&E matters, focusing on Environmental, Climate, Ethical, Social, and Economic pillars and ensure it is embedded throughout the operations of the Group.<br>• Advise, support and guide the Chief Executive Officer ('CEO') and Executive Management Team in formulating and implementing a business strategy geared to the sustainable development of the Group taking into account ESG, including C&E impacts.<br>• Oversee the Sustainability Committee's ('SC') implementation and progress of the ESG working plan.<br>• Review the institution's response and plan of action to the objectives set out under international agreements.<br>• Review and approve the ESG targets and KPIs, including C&E targets and KPIs, and monitor their performance.<br>• Review and approve the non-financial disclosures presented by the SC.<br>• Review and approve the ESG and Environmental Policy and Sustainable Finance Framework which enables BOCH and/or BOC PCL to issue Green/Social or Sustainable bonds. |
| **Human Resources and Remuneration Committee** | The Human Resources and Remuneration Committee ('HRRC') has been delegated authority by the Board and consists of 3 non-executive members of the Board, who possess appropriate knowledge, skills and expertise to oversee the implementation of Strategic HR initiatives which promote and are aligned with the Group's ESG ambition, strategy and objectives.<br><br>The HRRC reviews at least annually the appropriate structure of the remuneration system and whether the total amount of variable compensation has been set in accordance with the Remuneration Framework of the Central Bank Directive on Governance. Therefore, any enhancements to the Remuneration Policy to incorporate ESG and climate criteria are approved by the HRRC. |
| **Audit Committee** | The Audit Committee ('AC') has been delegated authority by the Board and consists of 3 non-executive members of the Board, who possess appropriate knowledge, skills and expertise to assess the soundness of the methodologies and policies that the management of the Group uses to develop ESG, including C&E metrics and other disclosures and to assess the key vendors' plans about sustainability.<br><br>The AC is responsible for the following:<br>• Ensure the ESG frameworks/standards, including C&E frameworks/standards, used are proper and relevant climate-related financial disclosures are investor grade.<br>• Consider materiality in terms of how ESG issues, including C&E issues, impact the Group's financial performance and ability to create long-term value (Financial materiality) and how the Group's actions impact people and the planet (Social materiality).<br>• Review material public reporting disclosures with respect to ESG, including C&E matters and discuss with management the Group's engagement with stakeholders on key ESG matters, including C&E matters, including in response to any proposals or other concerns that have been submitted to BOCH and/or BOC PCL or the Board.<br>• Ensure that Internal audit incorporates ESG, including C&E risks, in its Risk and Audit Universe (which comprises the auditable areas as assessed according to the primary risks which may impair their functionality). |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance** (continued)

**Management Committees**

Oversight and responsibility for providing strategic direction and implementation regarding climate-related goals, risks and disclosures.

| Management Committee | Role and Responsibilities |
|---|---|
| **Sustainability Committee** | The SC is an executive level committee chaired by the CEO and has as a primary role the oversight of the ESG agenda of the Group aiming to lead the Group towards a cleaner, fairer, healthier, and safer world. This will be achieved by helping its customers manage risks in a long-term sustainable and equitable way and aims for the Group to be an employer of choice in Cyprus.<br><br>The SC is responsible for the following:<br>• Monitor and review the development of the Group's ESG strategy for managing ESG risks, including C&E risks.<br>• Oversee the implementation of the Group's ESG & Climate strategy.<br>• Review the institution's response and plan of action to the objectives set out under international agreements.<br>• Review ESG targets and KPIs, including C&E targets and KPIs.<br>• Review the incorporation of ESG including C&E targets, KPIs and KRIs in the business strategy.<br>• Monitor progress against the Group's ESG working plan including the implementation of the ECB Guide on C&E risks.<br>• Oversee the degree of the Group's alignment with regulatory ESG including C&E related guidance, rules (such as EU Taxonomy, SFDR, NFRD and TCFD) and ECB expectations.<br>• Oversee the establishment of environmentally friendly products and Sustainable Finance Framework.<br>• Review policies relating to ESG matters and risks, including C&E matters and risks, to ensure that they are in line with the needs of the Group and the Group's ESG strategy and that they comply with applicable legal and regulatory requirements.<br>• Review non-financial disclosures including but not limited to the TCFD, relevant ESG disclosures in Pillar III and the annual Sustainability Report.<br>• Monitor the external ESG and C&E trends affecting the formulation of ESG policies, strategies and objectives. |
| **Executive Committee ('EXCO')** | The EXCO is responsible for the following:<br>• Consider the overall financial performance and progress of the Group per line of business, including, but not limited to, the Group's capital and liquidity position, the Group profitability, the NPE and the REMU portfolio.<br>• Consider the market conditions and strategic initiatives.<br>• Monitor the recovery and early warning indicators and assess the need to escalate for further action to the RC and the Board.<br>• Consider the Risk Report.<br>• Consider and approve budgets, business strategies/risk strategy to be presented to the Board for approval.<br>• Consider and approve the Group's Risk Appetite Statement to be presented to the RC and Board for approval.<br>• Consider and approve the Group's Financial Plan to be presented to the RC and the Board for approval.<br>• Consider the Compliance Reports/Matters and progress.<br>• Consider the Internal Audit Reports/Matters and progress.<br>• Consider the HR/People Management/Matters and progress.<br>• Consider the Corporate Affairs Report/Matters and progress.<br>• Approve all matters escalated to EXCO within its delegated authorities and/or recommend matters requiring escalation to the Board.<br>• Consider all other matters escalated for discussion by any member of the EXCO or any other Committee/Forum.<br>• Monitor the Board and Board Committees pending decision lists.<br>• Note the minutes of the Acquisition & Disposal Committee (ADC), Group Asset & Liability Committee (ALCO), the Regulatory Steering Group (RSG) and the Business Development Committee (BDC). |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance** (continued)

**Board Oversight**

The Board has ultimate oversight of the identification, assessment and integration of C&E risks and opportunities throughout the organisation. The Board is informed about the performance of the targets as well as the progress of the ESG working plan through NCGC and RC regular update.

The Terms of Reference of each committee dictate the responsibilities regarding ESG matters, including C&E matters. All C&E matters that are submitted to the Board Committees are in the form of formal documentation describing clearly the purpose and scope of the paper, the methodology applied, any considerations conducted during the process and the conclusions/results reached. The papers are presented to the Board Committees by the responsible division/department. The relevant Board Committee enquires and challenges the responsible division/department in order to approve the relevant paper.

The Group has compiled in 2022 an ESG working plan which is monitored by Investor Relations & ESG Department ('IR&ESG'), Risk Management Division ('RMD'), the SC and ultimately by NCGC and RC. The ESG working plan is structured in workstreams which are designed to articulate delivery of Group's ESG strategic objectives and are aligned with ECB expectations, LSE Disclosure requirements and other regulatory disclosure requirements. Each workstream is associated with specific activities designed to meet relevant reporting and regulatory requirements and achieve the Group's targets and objectives. For the successful delivery of the Group's ESG strategic objectives the Group has formed an ESG working group comprising of experts from various departments assigned with specific activities under the ESG working plan. Each activity completed by the ESG working group, is reviewed by the IR&ESG and RMD. The progress, status and output of activities is communicated to SC, as it has the responsibility for the oversight of all ESG activities and SC recommends output for activities relating to ESG policy, strategy and disclosures to EXCO for approval (except those activities relating to ESG and C&E risks). Following EXCO approval those activities are recommended to NCGC for approval (except for those activities relating to ESG and C&E risks).

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

- SC reviews policies relating to ESG matters, including C&E matters, to ensure that they are in line with the needs of the Group and the Group's ESG strategy and that they comply with applicable legal and regulatory requirements. The SC recommends approval of policies to EXCO (excluding ESG and C&E risks related policies). Following EXCO approval, the policies relating to ESG including C&E matters (excluding ESG and C&E risks related policies) are recommended to NCGC for approval.

- SC discusses and advises the RMD regarding ESG and C&E risks related matters and policies, such as ESG and C&E risks identification, quantification, materiality assessment and establishment of ESG and C&E criteria in the loan origination process. The RMD then submits to the RC for approval the ESG and C&E risks related matters and policies, also notifying the EXCO.

- SC reviews the institution's response and plan of action towards the objectives set out under international agreements and makes recommendation of the plan of actions for approval to the EXCO. Following EXCO approval and recommendation, the plan of actions is submitted to NCGC for approval.

- SC monitors and reviews the development of the Group's ESG strategy for managing ESG, including C&E risks, and recommends to EXCO for approval. Following EXCO approval and recommendation, it is submitted to NCGC for approval.

- SC reviews BOC PCL's annual non-financial disclosures including, but not limited to the TCFD, relevant ESG disclosures in Pillar III and the annual Sustainability Report and recommends to NCGC for approval, also notifying the EXCO.

- SC reports to the EXCO. The NCGC and RC are updated of the progress of ESG working plan on a regular basis.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance** (continued)

**Board Oversight** (continued)

The NCGC was informed about C&E matters in March 2022 when it received an update relating to the ESG agenda, decarbonisation strategy for Scope 1 and Scope 2 greenhouse gas ('GHG') emissions as well as data gap analysis. NCGC approved the Corporate Sustainability report of 2021, at the end of June 2022. In November 2022, the NCGC approved the decarbonisation strategy relating to Scope 1 and Scope 2 GHG emissions as well as the compilation of a comprehensive ESG working plan. Following the compilation and approval of the ESG working plan, the implementation of which is monitored by the SC, the NCGC will monitor progress of the ESG working plan and C&E issues on a quarterly basis. In 2022, the RC discussed and approved the risk identification and materiality assessment of the Group. In addition, it was updated on the progress of the ESG agenda twice during 2022. Following the compilation and approval of the ESG working plan, the implementation of which is monitored by the SC, the RC will monitor progress of the ESG working plan and C&E issues on a quarterly basis.

**Management Oversight**

The Group's management, led by the CEO, consists of executives who have many years of experience and extensive knowledge of the modern banking sector. The governance structure is flexible and functional in order to serve in the best possible way, shareholders and customers.

The CEO is responsible for implementing the enterprise climate strategy (a pillar within the ESG strategy).

In 2021, the Group formed the executive SC whose members, working together, take a coordinated enterprise approach to accelerate the Group's climate ambitions, targets and public engagement, working with a broad set of Group leaders to ensure full alignment and coordination on our climate strategy and actions.

The processes in which the EXCO and SC are involved in regards to the decisions taken on climate and environmental matters has been described in 'Board Oversight' and 'Management Committees' sections above.

Following the compilation of the ESG strategy in 2021 and the ESG working plan in 2022, specific accountabilities are assigned to the Group's Executives and Directors. The C&E responsibilities assigned to key Executives and Directors of the Group are summarised in the table below:

| Responsible person | C&E related responsibilities |
|---|---|
| Chief Executive Officer | The 'CEO' governs the sustainability performance of the Group, driving focus on ESG and climate stewardship and tracking progress made across the business to meet the Group's ESG and climate ambitions through the long-term ESG working plan. The CEO is involved in the identification of sustainable finance growth opportunities for the Group and promoting the development of these in tackling climate change. |
| Executive Director Finance & Legacy | The Executive Director Finance & Legacy is responsible for the successful integration of ESG into the Group's core business operations, in cooperation with business lines Directors, and long-term business strategy as well as the oversight of the progress of the ESG working plan for the implementation of ESG and climate strategy and Sustainability reporting. In addition, the Executive Director Finance & Legacy is responsible for the oversight of the estimation of Scope 1, Scope 2 and Scope 3 GHG emissions of the Group and the establishment of C&E decarbonisation targets and strategy, in cooperation with Deputy Chief Executive Officer and Chief Risk Officer. |
| Chief Risk Officer | The Chief Risk Officer is responsible and accountable for the process of effectively managing C&E risks of the Group. This includes the responsibility of overseeing the implementation of the ESG working plan which supports the C&E risk identification, measurement, assessment, stress-testing and limit setting, as well as the supporting governance. The role further encompasses the responsibility of reviewing risk appetite and C&E risk appetite metrics. |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar I - Governance** (continued)

**Management Oversight** (continued)

**Investor Relations and ESG Department ('IR&ESG')**

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

- compile the ESG working plan and monitor its progress;
- develop the action plan for the implementation of the ESG and climate strategy;
- establish the ESG and climate targets and KPIs and monitor their progress;
- prepare ESG and climate-related reporting;
- coordinate the activities and deadlines of the ESG Working Group;
- review in cooperation with RMD the activities completed by the ESG Working Group; and
- report to the SC in frequent intervals and Board Committees in line with the Terms of Reference.

**Risk Management Division:**

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

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

The Executive Director of Finance & Legacy and the Chief Risk Officer monitor the progress of the ESG working plan on a bi-weekly basis.

**Remuneration policy**

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

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

Group-wide performance relating to ESG and climate targets are included in the performance scorecard of any applicable Long-Term and/or Short-Term Incentive Plans, at the time of the design and approval of a plan.

The long-term incentive plan ('2022 LTIP') that has been approved by the Company's shareholders, incorporates measurement of performance against an evaluation scorecard consistent with the Group's Medium-Term Strategic Targets, which include ESG targets. The evaluation scorecards used in the abovementioned scheme include KPIs on External ESG ratings. External ESG ratings are granted based on an external assessment performed on ESG aspects of the Group.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

## Pillar II - Strategy

Moving to a sustainable economy is the challenge of our time. Ever-increasing GHG emissions are warming the planet, changing the climate and threatening human life. Averting this requires deep and sustained cuts to GHG emissions. To keep warming to 1.5°C, cuts of 45% are required by 2030, with global GHG emissions reaching 'net zero' by 2050. This means GHG emissions need to decline now. The transition to this low carbon economy requires a transformation of assets and behaviours, for which trillions of dollars in finance are required.

To assist this transition, European Regulators have put in place an EU action plan for sustainable growth that includes several new regulatory disclosure standards, as well as expectations that are bound to become requirements in the near future. Following the developments and having set a 'Beyond Banking' approach and a vision to create a stronger, safer, and future-focused organisation, the Group is determined to continue working towards a better Cyprus and a better world for today and future generations. Consequently, the Group further aspires to increase its positive impact on environment and maintain its leading role in the social and governance pillars by transforming not only its own operations, but also the operations of its customers.

The Group continues to broaden and strengthen its efforts to identify climate-related risks and opportunities, the key first step in the Group's climate strategy. Once identified, the Group assesses how the risks can be better managed, reduced or mitigated in line with its risk management framework.

The Group's approach to climate action is evolving over time and has progressively been embedded into the Group's activities and actions. The Group is determined to create a stronger, safer, and future-focused organisation. Consequently, the Group focuses on creating lifelong partnerships with customers, as well as guiding and supporting them in a changing world by financing projects which bear a positive climate impact. Underpinning the Group's Climate Strategy (a pillar within its ESG strategy), there are three strategic areas where, moving forward, the Group will focus our climate action:
- Reinforcing the impact of climate financing;
- Building resilience to climate change; and
- Further integrating climate change considerations across all of Group's standards, methods and processes.

The commitments made by the Group in its ESG Strategy focus on the following key objectives:
- Become carbon neutral by 2030;
- Become Net Zero by 2050;
- Steadily increase Green Asset Ratio; and
- Steadily increase Green Mortgage Ratio.

### Climate-related Risks

The Group's Climate Strategy is continuously evolving as the Group improves the tools and expands the resources available to grow its understanding of the interconnection between the climate, its business, operations, clients and communities. The Group seeks to identify and advance the initiatives that will enhance its operational resilience, decision-making and planning to mitigate climate-related risks and capitalise upon climate-related opportunities. The Group's strategy and risk management initiatives are interdependent and adapt as needed based on the performance against established metrics and targets. The Group is working to advance its climate knowledge base and resilience to climate-related shocks.

The Group views climate risk as a cross-cutting risk which manifests itself through or amplifies existing risk categories within the Group's Risk Taxonomy, as described further in the 'Pillar III - Risk Management' section of these ESG Disclosures. These transition and physical risks can manifest themselves differently across risk categories in the short, medium, and long term. The time horizons considered are described here for reference. As the Group is in the process of setting up a holistic net-zero strategy, it is expected that it will be in a position to set more granular timeframes moving forward to efficiently capture the decarbonisation targets that will be set.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar II – Strategy** (continued)

**Climate-related Risks** (continued)

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

As new data and modelling capabilities become available, the Group continues to build upon the transition and physical risk scenario analyses. The Group's ambition is to use various models and programmes within its risk assessment process to guide the climate strategy, by allowing it to quantify further the financial impacts of such risks on its portfolios. Furthermore, it is expected that managing the portfolio to net zero should also help to substantially mitigate transition risk. On physical risks, the Group considers that raising the awareness of its customers on acute and chronic physical risks can assist both parties in identifying the best adaptation mechanisms to support a resilience to adverse scenarios through the right products.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar II – Strategy** (continued)

**Climate-related Risks** (continued)

In particular, in order to assess the financial impact of transition risks on the loan portfolio, a sensitivity analysis on the Financial Plan is to be carried out to reflect the potential impact of a short-term disorderly scenario according to which a set of policies would be frontloaded. Under such a scenario, it would be expected that fuels costs and energy use become more expensive and thus would push the operating margins of corporates downwards as a result of absorbing a part of these costs. At the same time, the increased cost of energy would increase the living costs for households and thus on the grounds of affordability assessment, certain households would face challenges which would be reflected in their cost of risk. Considering the specific composition of the Group's portfolio, such policies would most likely affect customers in the Construction and Real Estate sectors and customers with mortgage loans granted prior to 2010 implying thus less energy-efficient properties.

Further details on how the Group identifies and assesses climate-related risks are provided under 'Pillar III - Risk management' section of these TCFD.

**Net Zero Strategy**

The Group, as disclosed in the 2021 Sustainability Report has resolved to align with the target set by the Paris agreement, the EU Green Deal and the Cyprus Government for a Net Zero goal by 2050.

Beyond the initiatives focusing on introducing the financing of sustainable products and services, and designing and embedding environmental procedures in the lending process, the Group monitors closely internal operations in order to reduce and eliminate GHG emissions.

As a first step, the Group's Scope 1, Scope 2 and material non-Financed Scope 3 GHG[1] emissions were calculated for 2021, using a widely accepted methodology and bringing the Group in a position where it can set a feasible roadmap of actionable tasks to reduce its carbon footprint and achieve its decarbonisation goals.

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

BOC PCL plans to invest in energy efficient installations and actions and replace fuel intensive machineries and vehicles from 2023 to 2025, leading to approximately 5-10% reduction in Scope 1 and Scope 2 GHG emissions by 2025 compared to 2021. BOC PCL expects that the Scope 2 GHG emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The actions planned by BOC PCL between 2023 to 2025 include:

- Air-conditioning systems replacements
- Boiler replacements
- Photovoltaic (PV) installations
- Roof insulation
- $CO_2$ sensors installation
- Heat recovery installation

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

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

BOC PCL has also recently become a member of the Partnership for Carbon Accounting Financials (PCAF) and estimated Financed Scope 3 GHG emissions derived from its loan portfolio based on PCAF standard and proxies. In 2023, the Group plans to estimate Financed Scope 3 GHG emissions associated with its investments and insurance portfolios. BOC PCL is currently in the process to set decarbonisation targets in specific sectors and asset classes of the loan portfolio as described in the 'Pillar IV - Metrics and Targets' section of these TCFD. The decarbonisation targets that will be set in 2023 associated with the loan portfolio will also be embedded in the Group's Financial Plan.

[1] The non-Financed Scope 3 GHG emissions of the Group comprise of GHG emissions from the business travel, waste disposal, purchased good & services, employee commuting and transport and distribution categories.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar II – Strategy** (continued)

**Net Zero Strategy** (continued)

As a means to enhance not only its climate risk framework but also its ability to identify future opportunities BOC PCL is in the process of introducing new ESG scorecards within its credit granting process which will allow it to more granularly identify ESG risks but at the same time it will open a communication line with its clients to better prepare them to comply with upcoming EU legislation on disclosure, such as the CSRD, which will eventually be reflected within the Group's own net-zero strategy by providing more accurate data and targets.

In terms of stress testing and climate scenario analysis, BOC PCL is currently building the necessary modelling approaches to conduct climate-related stress testing through a bottom-up methodology, as further described in the 'Pillar III - Risk management' section of these TCFD. Developing stress testing will further help to assess the implications of physical and transition risks in the portfolios, and to inform the business strategy and capital planning.

**Green Asset Ratio[2] and Green Mortgage Ratio[3]**

As BOC PCL falls under the Non-Financial Reporting Directive it is mandatory to also comply with the EU Taxonomy regulation for financial institutions. As such, BOC PCL is taking necessary actions and measures to estimate and disclose its Green Asset Ratio, which presents the proportion of the share of a credit institution's assets financing and invested in EU Taxonomy-aligned economic activities as a share of total covered assets, such as those consistent with the European Green Deal and the Paris agreement goals. However, it is important to note that financial institutions are currently required to disclose only the EU Taxonomy eligible activities as a share of total covered assets. EU Taxonomy required disclosures are provided in Part B of the 'ESG Disclosures'.

BOC PCL has committed within its strategy to improve its Green Asset Ratio not only as part of its dedication to the EU Green Deal and the Paris Agreement, but also because, through its increase it will significantly reduce its exposure to transition risk and potential capital impact, which consequently will also have a positive impact towards investors' interest and will further establish BOC PCL as a market leader in the sustainability space.

BOC PCL has approved a high-level Green Lending Policy based on the Green Loan Principles ('GLPs'), and its purpose is to provide the framework for the procedures and the requirements that BOC PCL will implement for the creation of 'green' loan products and ultimately the development of a green loan portfolio. The Green Lending Policy provides instructions regarding the information that BOC PCL should require from borrowers so to ascertain whether an application for a green loan product can be considered for approval and adopts an indicative list of eligible categories for green project financing.

BOC PCL, under its existing Environmental and Social Policy prohibits finance to certain sectors (thermal coal mining, coal-fired electricity generation, upstream oil exploration, upstream oil development) which are included in its 'Exclusion and Referral Sectors' list with negative environmental impact.

BOC PCL offers a range of environmentally friendly products to manage transition risk and help its customers become more sustainable. For example, a number of loan products are offered under the Fil-eco Product Scheme. BOC PCL offers Environmentally friendly Car Hire Purchase addressed to anyone who wants to buy a new hybrid or electric car, providing its customers the opportunity to buy a new electric vehicle and to move away from transport options reliant on fossil fuels. Moreover, an environmentally friendly loan for home renovation is offered to customers who want to renovate and upgrade the energy efficiency of their privately owned primary residence or holiday home and achieve a higher energy efficiency rating. Further, the customers may benefit from an Energy Loan for the installation of energy saving systems for home use. This product is addressed to customers who seek financing for the installation of photovoltaic systems for home use and other home energy-saving systems.

Looking forward, in 2023 the Group will continue to build out its green product offering further. The Group expects to discuss ESG and climate matters with its clients at the point of loan origination.

[2] Green Asset Ratio: The proportion of the share of the credit institution's assets financing and invested in EU Taxonomy-aligned economic activities as a share of total covered assets.
[3] Green Mortgage Ratio: The proportion of the share of the credit institution's assets financing EU Taxonomy-aligned mortgages (acquisition, construction or renovation of buildings) as a share of total mortgages assets.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar II – Strategy** (continued)

**Sustainable Development Goals ('SDGs')**

The Group has also identified, through several multi-stakeholder dialogue, numerous material areas of impact that contribute to specific SDGs. As sustainability reporting is now a major source of information for investors, combined with the fact that regulatory bodies are also increasing the requirements of aligned disclosures, transparent reporting of SDGs is of high importance for the Group.

Due to its expertise and business model, the Group has selected to focus on the following SDGs:


These goals are the ones where the Group can have an impact based on its business environment and its customers. These include the commitment to the Paris Agreement, which is an overarching commitment. Committing to climate change mitigation means to actively support responsible tourism and consumption, innovation in the local infrastructure, and supporting sustainable cities and communities.

Further information on the actions and list of KPIs can be found in the annual Sustainability Report.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar II – Strategy** (continued)

**Climate-related Opportunities**

Climate-related opportunities have been identified across business segments and are informed by the understanding of climate-related risks. They include strategies, products, services and advice to support clients in the low-carbon transition, and to capture new areas of business growth, such as sustainable finance. The Group has also identified opportunities in its operations to mitigate climate change, while improving efficiency and resilience as can be shown in the table below.

| Opportunity Type | Climate-Related Opportunities | Time Horizon | Identified Impactful Activities |
|---|---|---|---|
| **Resource Efficiency** | Use of more efficient modes of transport | Medium/Long | • Upgrade of car fleet with net-zero cars<br>• Awareness of personnel and culture change regarding efficient and less polluting modes of transport |
| | Use of recycling | Short/Medium/Long | • Enhance the recycling actions of the organisation<br>• Support circular economy |
| | Move to more efficient buildings | Short/Medium/Long | • Energy efficiency upgrades of owned buildings<br>• Transfer to more energy efficient leased buildings |
| | Reduce water usage and consumption | Short/Medium/Long | • Increase efforts for the reduction of water usage within the Group's premises |
| **Energy Systems** | Use of lower-emission sources of energy | Short/Medium/Long | • More strict procurement specifications for new hardware and electronics |
| | Shift toward decentralized energy generation | Medium/Long | • Installation of photovoltaics on owned premises<br>• Enter into Power Purchase Agreements with providers of renewable energy |
| **Products and Services** | Development and/or expansion of low emission products and services | Short/Medium/Long | • Expand the range of sustainable and environmentally friendly products and services. Refer to current environmentally friendly offerings reported under 'Pillar II - Strategy' section of these TCFD |
| **Markets** | Use of public-sector incentives | Short/Medium/Long | • Identify public funding schemes stemming from the RRF in order to further support interested parties and assist in the acceleration of transition efforts |
| | The development of new revenue streams from new/emerging environmental markets and products | Medium/Long | • Through the net-zero strategy exercises identify sectoral decarbonisation needs and develop new products to assist the clients to achieve their own net-zero targets |
| | Improved ratings by sustainability/ESG indexes | Short/Medium/Long | • Continuously improve internal procedures and disclosures in order to acquire better ESG ratings |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management**

BOC PCL – as one of the systematic banks in Cyprus - is exposed to potential climate related risks and as such has taken the necessary steps to commit in managing these possible risks. To pursue that, a comprehensive and prudent climate risk management framework will be integrated in the existing risk management framework, in line with the applicable regulatory requirements and following best banking practises.

The Group follows the definition of the TCFD for C&E risks as can be shown below.

Climate-related risks fall into two major categories: (1) risks relating to the transition to a lower-carbon economy (transition risks) and (2) risks relating to the physical impacts of climate change (physical risks).[4]

| | |
|---|---|
| **Physical risks** | **Acute physical risks**, which arise from specific weather-related events such as storms, floods, wildfires or heatwaves.<br><br>These extreme weather events may damage production facilities and disrupt value chains.<br><br>**Chronic physical risks**, which arise from longer-term changes in the climate, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.<br><br>Physical risks cause damages to assets and disrupt operations and supply chains. |
| **Transition risks** | **Policy risk** results from policy and regulatory actions seeking to limit global warming or promote adaptation to climate change.<br><br>**Legal risk** stems from climate-related litigation claims as organisations fail to mitigate impacts of climate change, to adapt to climate change or to provide sufficient disclosure around material financial risks.<br><br>**Technology risk** arises from new technologies making old systems prematurely obsolete, thus having a disruptive impact.<br><br>**Market risk** is caused by supply and demand shifts for certain commodities, products and services taking into account climate considerations.<br><br>**Reputational risk** comes from changing perceptions of an organisation’s impact on climate. |

[4] E06 - Climate related risks and opportunities.pdf (tcfdhub.org)

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Methodology - Climate Risk Identification and Assessment**

As part of the overall risk management process of C&E risks, a risk identification analysis and assessment exercise has been carried out for the consideration of the impact of climate change on its financed portfolio for different time buckets. The identified risks are assessed on an on-going basis to ensure that these remain up to date given the developments in the business environment and the mitigating actions taken by the Group.

The risk identification process comprised the following:

**Exposures identification**

To identify the exposures that are vulnerable to transition risks, we employed the Climate Policy Relevant Sectors (CPRS) approach. This approach is a classification of activities whose revenues could be affected positively or negatively in a disorderly low-carbon transition. It allows the assessment of the economic and financial risk when firms are misaligned with the climate and decarbonisation targets specified in the Paris Agreement or with other defined policy objectives.

CPRS are identified considering their:
- direct and indirect contribution to GHG emissions;
- role in the energy value chain;
- relevance for climate policy implementation (i.e., their cost sensitivity to climate policy or regulatory change, e.g., the Carbon Leakage Regulation); and
- business model (input substitutability of fossil fuel).

**Risk identification**

Several sources were examined, the key to which are presented below, in order to identify the risks that can have a financial impact on the Group. The process involved a rigorous analysis of several risks and possible impacts they could have on a number of high transition sectors within the CPRS framework, marking which combination of risks and impacts were relevant to Cyprus, the local market and finally BOC PCL itself. The analysis revealed over a hundred relevant impacts across the 22 physical/transition risks. As part of this process, the materialisation time frame as well as the transmission to traditional risks were also identified.

| **Key Sources of Risk Identification** |
|---|
| *Transition risks*<br>1. Blackrock’s study paper with title ‘Development of Tools and Mechanisms for the Integration of ESG Factors into the EU Banking Prudential Framework and into Banks' Business Strategies and Investment Policies’.<br>2. ECB’s paper with title ‘Climate risk stress test – SSM stress test 2022’. |
| |
| *Physical risks*<br>1. The Intergovernmental Panel on Climate Change (IPCC) paper with title ‘AR6 Climate Change 2021: The Physical Science Basis’.<br>2. The Cyprus Government’s Ministry of Agriculture, Rural Development and Environment in the Department of Environment report with title ‘The Cyprus Climate Change Risk Assessment Evidence Report’. |
| |
| *Other Sources*<br>1. UNEPFI Impact Analysis Tool<br>2. The Cyprus Government’s Ministry of Agriculture, Rural Development and Environment in the Department of Environment report with title ‘Report on The State of the Environment in Cyprus 2020’ |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Risk identification** (continued)

Following the risk identification process as presented above, a qualitative assessment was carried out of over a hundred identified relevant impacts. The assessment methodology included the vulnerability assessment of each NACE sector to the 22 identified risks in order to consider the relevance and potential impact on BOC PCL's portfolio. Following this, the Group proceeded to the qualitative assessment of the risks based on specific criteria.

The tables below provide the four primary risks, which are affected by C&E risks (both transition and physical), and set out the possible impacts and the transmission mechanism. Furthermore, across the previously defined time horizons, climate change may affect, to different degrees, these primary risks (i.e., Credit, Liquidity & Funding, Market and Operational Risk).

<table>
<tr><th>Traditional Risks</th><th>Transition Risks</th><th>Transmission Mechanisms</th><th>Examples</th><th>Time Horizon</th></tr>
<tr><td>Credit Risk</td><td>✓</td><td>-Impact on repayment ability through:<br>- increased operating costs for compliance and/or lower revenues<br>- increased capital expenditures to comply with regulatory standards<br>- decrease in value of collateral and/or costs to monetise</td><td rowspan="2">- Vulnerability to increasing energy costs/dependence on single energy provider *(Market, Policy and Legal)*<br>- Corporate carbon reporting has become increasingly common, and all companies will need to comply (*Policy and Legal)*<br>- Substitution of existing aged products and services will impact sectors like real estate especially existing stock (*Technology)*<br>- Manufacturing companies will need to find alternatives for packaging which will increase costs *(Technology)*<br>- Carbon pricing on carbon intensive materials will increase the cost of the raw components needed for building a new structure such as steel, concrete, plastic, agricultural products, fuels etc. *(Market)*<br>- Mandates to reduce polluting waste, encourage cyclical economy and reduce GHG emissions will have an impact to several sectors of the economy *(Policy and Legal)*</td><td>Short to medium term</td></tr>
<tr><td>Liquidity & Funding Risk</td><td>✓</td><td>- Inability to raise funding due to lack of climate change action by the organisation<br>- Depletion of deposits to address increase operational costs or mitigate transition risks</td><td>Short to medium term</td></tr>
<tr><td>Market Risk</td><td>✓</td><td>- Impact on the price of marketable debt instruments (bonds) and to Real Estate assets</td><td>- Impact on the BOC PCL's valuation if it does not reduce its GHG emissions and/or increase its Green Asset Ratio *(Market)*<br>- Impact on debt instruments and collateral values held in cases these are exposed to C&E risks *(Market)*</td><td>Medium term</td></tr>
<tr><td>Operational / Reputational Risk</td><td>✓</td><td>- Reputational risks due to inability to meet stakeholders' demands or due to financing of environmentally harmful projects<br>- Litigation risks due to financing of environmentally harmful projects</td><td>- Impact on BOC PCL's valuation stemming from reputational risks in cases where its GHG emissions are not reduced *(Reputational)*<br>- Reputational impact if the Group fails to introduce greener products *(Reputational)*<br>- Litigation action against BOC PCL or its customers where environmentally harmful projects are financed or pursued *(Policy and Legal)*</td><td>Short to medium term</td></tr>
</table>

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Risk identification** (continued)

| Traditional Risks | Physical Risks | Transmission Mechanisms | Examples | Time Horizon |
|---|---|---|---|---|
| Credit Risk | ✓ | -Impact on repayment ability through:<br>- increased operating costs due to retrofitting and/or damage/substitution of assets<br>- increase in insurance costs<br>- lower revenues due to reduced productivity<br>- decrease in value of collateral and/or costs to monetise | - Wildfires resulting from extreme temperature spells are highly destructive on property *(Acute & Chronic)*<br>- Strong storms and extreme rainfall could often result in flooding and costly damage to property and disrupt operations and supply chains if facilities are flooded *(Acute)*<br>- Sea level rise is expected to reduce the island's coastline by 80% in a hot house scenario. In the absence of adaptation, more intense and frequent extreme sea level events, together with trends in coastal development will increase expected annual flood damages by 2-3 orders of magnitude by 2100 based on projections by IPCC.<br>- Increases in temperature and failure to adapt may bring about overheating in buildings that, in turn, increases health risks to the vulnerable portion of the population and to indoor workers which can also affect productivity. Assets that have not been retrofitted will not be marketable *(Acute & Chronic)*<br>- Climate change is expected to cause an increase in the frequency, intensity and duration of drought events. Studies generally conclude that these events substantially undermine property prices. *(Chronic)* | Short to longer term |
| Liquidity Risk | ✓ | - Depletion of deposits to address increase operational costs or mitigate transition risks | | |
| Market Risk | ✓ | - Impact on the price of marketable debt instruments (bonds) and to Real Estate assets | - Properties located in areas of higher physical risks, such as flood and wildfire risks, will be faced with the probability of decrease in their price. *(Acute & Chronic)* | |
| Operational / Reputational Risk | ✓ | - Increased operational costs | - Incurred damages due to acute physical risks on the buildings can disrupt operations as well as increased operational costs for repairing damages *(Acute)*<br>- Increased operational costs for cooling of buildings *(Acute & Chronic)*<br>- Potential downtime of IT systems during prolonged acute heatwaves *(Acute)*<br>- Decreased personnel productivity during prolonged acute heatwaves *(Acute & Chronic)* | |

Credit risk is one of the key risk categories considered to be most impacted by climate change, as seen in the tables above.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Risk identification** (continued)

Based on the analysis carried out the mapping to the sectors sensitive to C&E risks is presented below:

| Risks | Type | Driver | REAL ESTATE ACTIVITIES | ACCOMMODATION & FOOD SERVICE | CONSTRUCTION | TRANSPORTATION & STORAGE | WHOLESALE & RETAIL TRADE; REPAIR OF MOTOR VEHICLES | MANUFACTURING | AGRICULTURE, FORESTRY AND FISHING |
|---|---|---|---|---|---|---|---|---|---|
| Change in Precipitation - Change in average precipitation level | Physical | Chronic | | | | | | | |
| Change in Precipitation - Increased intensity, frequency and/or duration of flooding | Physical | Acute | | | | | | | |
| Change in Temperature - Change in average temperature | Physical | Chronic | | | | | | | |
| Change in Temperature - Extreme temperature spells | Physical | Acute | | | | | | | |
| Changing customer behaviour | Transition | Market | | | | | | | |
| Desertification | Physical | Chronic | | | | | | | |
| Energy supply | Transition | Market | | | | | | | |
| Enhanced emissions-reporting obligations | Transition | Policy & Legal | | | | | | | |
| Exposure to litigation | Transition | Policy & Legal | | | | | | | |
| Extreme weather - Droughts - Increased intensity, frequency and/or duration of droughts | Physical | Acute | | | | | | | |
| Extreme weather - Droughts - Increased intensity, frequency and/or duration of droughts | Transition | Market | | | | | | | |
| Extreme weather - Storms - Increased intensity, frequency and/or duration of storms | Physical | Acute | | | | | | | |
| Increased cost of raw materials | Transition | Market | | | | | | | |
| Increased pricing of GHG emissions | Transition | Policy & Legal | | | | | | | |
| Increased stakeholder concern or negative stakeholder feedback | Transition | Reputation | | | | | | | |
| Loss of biodiversity | Physical | Chronic | | | | | | | |
| Mandates on and regulation of existing products and services | Transition | Policy & Legal | | | | | | | |
| Pests | Physical | Chronic | | | | | | | |
| Shifts in consumer preferences | Transition | Reputation | | | | | | | |
| Substitution of existing products and services with lower emissions options | Transition | Technology | | | | | | | |
| Uncertainty in market signals | Transition | Market | | | | | | | |
| Sea level rise | Physical | Chronic | | | | | | | |

*Explanation of colours:* Immaterial | Low | Medium | High

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Risk identification** (continued)

Furthermore, the below table presents the identified risks and possible impacts for the Retail Real Estate and Commercial Real Estate as the Group has a high concentration within these sectors. For these sectors transition risks are expected to materialise through the need of more energy efficient and net-zero buildings which could translate into credit risk by affecting the repayment ability of the borrowers due to increased unexpected costs or by decreasing the value of the asset. Physical risks need to be examined on an asset-by-asset basis and factoring in also their location.

| Risk | Driver | Impact | Timeframe | Assessment |
|---|---|---|---|---|
| Change in Temperature - Change in average temperature | Chronic | Anticipated higher temperatures and lower average rainfall are expected to increase the number of 'very high' and 'extreme' Forest Fire Danger Index days. Land and buildings located near areas deemed high risk may see a decrease in demand resulting in reduced land prices. | Long-term | **Medium** |
| Change in Temperature - Change in average temperature | Chronic | Lack of attention to extreme heat events may bring about overheating in buildings that, in turn, increases health risks to the vulnerable portion of the population such as the elderly, the sick and physically challenged, and the very young. High temperatures can be ameliorated by air conditioning, although causing increased energy consumption and therefore in most instances, GHG emissions. Real Estate companies and Hotels may face increased capital expenditure costs to retrofit air conditioning systems to existing buildings or additional costs in including the systems in new builds as well as additional operating expenditure to run the units. This may have an adverse impact on property valuations. | Long-term | **Low** |
| Change in Temperature - Extreme temperature spells | Acute | In instances where it is projected that significant increases in degradation rate are to arise, adaptations to the building fabric may be required. For existing buildings, adaptation is a means to further protect the existing building fabric, to enhance performance and control the rate of degradation. | Short-term | **Medium** |
| Changing customer behaviour | Market | Climate change and sustainability is becoming an important factor for many consumers and investors. Stakeholders are increasingly pressuring companies to reduce their carbon footprints. Companies that fail to adopt and respond to these changing attitudes and behaviour could see themselves losing customers and becoming stigmatised. | Medium-term | **Medium** |
| Changing customer behaviour | Market | Climate change is expected to negatively impact housing prices and demand in regions/areas that are more exposed to physical climate risks. Sea level rise, more intense storms, higher risk of forest fires, lower water quality, and increased frequency of drought events can shift home owners and investors away from traditionally desirable locations.<br>Furthermore, climate change and sustainability is becoming an important factor for many consumers and investors. Houses will be expected to be green or energy efficient and have less dependency on traditional energy and other utility sources. These impacts could decrease valuation for properties and rents. | Medium-term | **Medium** |
| Extreme weather - Droughts - Increased intensity, frequency and/or duration of droughts | Acute | Drought events would increase the risk of fires and reduce the ability of safety teams to battle these fires due to water scarcity. Sectors with immovable assets could be facing more damages due to fire events and increasing cost to repair these damages. | Short-term | **Medium** |
| Shifts in consumer preferences | Reputation | Energy efficient buildings achieve higher asset values through securing higher rents, lower lease-up costs, higher occupancy levels, lower operating costs and improved indoor air quality. Buildings that do not take into account these additional preferences could face a reduction in demand and the valuation of such properties could decrease. | Medium-term | **Medium** |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**UNEPFI Impact Analysis Tool**

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

- Human needs (the social pillar – people)
- Environmental conditions or constraints (the environmental pillar – planet)
- Economic development (the economic pillar – prosperity)

The tool allows the selection of the industries that the Group has the biggest exposures to and following that it maps which of them are particularly affected by sustainability trends. The impacts are then further broken down as to deeply understand which SDGs are the most relevant for the Group.

For the Corporate portfolio, the impact analysis focussed on the fifty most important sub-sectors based on NACE codes for a total of ten sectors, analysing €4.7 billion of exposures out of a total of €10.2 billion gross loan book as at 31 December 2022. In terms of industries, Accommodation, Real Estate, Trade and Construction have the highest share in the Group's portfolio. Sectors that are of less importance in terms of financed exposure but are considered significant due to their impact on the SDGs, e.g., manufacturing, transportation and agriculture, were also analysed. For Consumer banking, the impacts of the most prevailing banking products were examined including credit cards, overdrafts, consumer loans, mortgage loans, student loans and vehicle loans.

**Analysis**

*a) Corporate Portfolio*

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

- Circularity;
- Biodiversity & healthy ecosystems; and
- Climate stability.

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

- Biodiversity;
- Resource Intensity;
- Waste; and
- Climate Stability.

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

Similarly, the manufacturing and the transportation sectors are mainly associated with the consumption of fossil fuels and production of GHG emissions (through energy usage and mobility). Agriculture is a sector where it takes up a lot of land whereas livestock production causes the emission of fairly large amounts of $CO_2$. The accommodation sector, which is of the largest sectors of the loan portfolio, it is not considered a key sector by the UNEP FI tool. However, it is negatively associated with waste, pollution, and the cause of strain on land and local ecosystems.

*b) Consumer Banking - Households*

The analysis indicates that mortgage loans are negatively associated with 'Climate Stability' and 'Resource Intensity' mainly due to the consumption of energy (GHG emissions). Similarly, vehicle loans are adversely related to Climate stability and Resource intensity due to their GHG emissions.

Next Steps

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

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Process for managing climate risks**

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

The table below provides an overview of the actions to mitigate climate risk the Group intends to take or is already taking. These actions relate to the previously identified C&E risks that affect the primary risk types.

| Risk Type | Controls/ Mitigations Used |
|---|---|
| Credit | ***Transition Risks***<br>Going forward, the Group intends to perform detailed analyses ('deep dives') for specific Corporate clients with large exposures, in order to carry out strategic initiatives with respect to the following:<br>-Determination of financing terms for Corporate clients with different levels of transition risk<br>-Financing of Corporate clients' 'green' transition<br>-Collection of additional information on Corporate clients' environmental performance (e.g., GHG emissions data).<br><br>***Physical Risk Assessment***<br>In the context of further future actions, the Group intends to perform detailed analyses ('deep dives') regarding its exposure to specific areas with high physical risk vulnerabilities. This will be facilitated through the acquisition of detailed geolocation data which will allow the Group to consider the physical risk of collaterals during loan origination process, to appropriately adjust the underlying financing. |
| Liquidity & Funding | The 2022 ILAAP scenario considers increased outflows on climate sensitive areas of the loan portfolio. |
| Market | The Group will consider the ESG rating of bonds purchased. |
| Operational | The Group, through its current policies and procedures within its BAU and Business Continuity Plans is already addressing these risks. Furthermore, it plans to capture these risks and mitigating actions through its third-party assessment procedures. |

**Integration of climate related and environmental risks into overall risk management**

The Group is making substantial progress in further integrating climate risk considerations into its risk management approach, as it tries to integrate climate related risk into its risk culture.

The Group is in the process of embedding climate related risks into its:

- Risk Appetite Framework;
- Climate risk assessment at loan origination;
- Capital Adequacy Assessment and Stress Testing; and
- Internal Risk Reporting.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Risk Management Framework**

The Group has in place a coherent and comprehensive Risk Management Framework for the identification, assessment, monitoring and controlling of risk within the Group. The Framework provides the infrastructure, process and analytics needed to support effective risk management.

**Risk Appetite Framework**

The Group has set several primary KPIs and corresponding targets in its ESG strategy which are reflected in its current Risk Appetite Statement. Shorter term targets will be set going forward following the estimation of Financed Scope 3 GHG emissions.

**Climate risk assessment at loan origination**

Within the context of its loan underwriting processes BOC PCL is currently in the process of incorporating the assessment of ESG and climate matters and amending its Policies and Procedures in such a way that potential impact from ESG and climate is reflected in the fundamental elements of the creditworthiness assessment i.e., in Repayment Capacity and Collateral Assessment.

In doing so, BOC PCL is taking the necessary steps to develop an approach which will allow this impact to be assessed both with new lending applications and within stress testing framework. The rationale of elaborating on such an approach is that certain risks might be already affecting the fundamental parameters and are not dependent on realisation of a scenario, whereas other risks are scenario dependent, and their impact would materialise only in the case of the scenario being realised.

The exercise includes the design of ESG questionnaires per sector which will then be leveraged for deriving an ESG classification. The amendment in policies and procedures will also account for the decision-making process in the form of potential alteration of pricing, setting of specific covenants and monitoring requirements, etc.

**Climate risk sensitivity and stress testing**

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

The Group is in the process to enhance the Risk Quantification capabilities regarding the quantification of ESG and climate risks both in terms of an Economic perspective and Normative perspective. In doing so, the Group will focus/take into consideration the below:

- Incorporation of ESG and climate into its risk parameters (PD, LGD, etc.).
- Development of methodology to quantify the ESG and climate risks on the basis of risk parameters.
- Development of methodology to quantify the impact from specific scenarios, by considering whether the said scenario would directly affect risk parameters, or the impact would be propagated via macro-economic factors.

Following the above, the Group aims to assess the impact on capital in relation to the level of risks it is or might be exposed to, under both normal and stress conditions from both the normative and economic perspectives.

Climate change risk will be considered in the risk identification process of the assessment. Where relevant, outcomes from climate scenario analysis and stress tests will be reflected in the assessment documentation.

With the aim to integrate climate risk into the existing risk taxonomy and risk registry of the Group and inform the various business processes, the Group will assess the potential need to capitalise climate risk, considering regulatory and supervisory expectations.

The Group will also be carrying out sensitivity analysis on the vulnerable areas of its loan portfolio. Such analysis is expected to be carried out on a top-down basis.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

### Internal Risk Reporting

The Group is working to introduce a new reporting framework to track its climate risk exposure. Currently, regular reporting primarily consists of progress updates on the ESG Working Plan. This takes place through the SC mostly on a monthly basis. Frequent updates (quarterly) are being provided to the NCGC and the RC. The RC also receives separate updates on specific risk management related activities when needed.

Beyond the ESG Working Plan updates, during 2022 the following items were submitted to the appropriate Board Committee:

- The decarbonisation strategy relating to Scope 1 and Scope 2 GHG emissions. This was submitted to the NCGC for approval.
- The risk identification and materiality assessment. This was submitted to the RC for approval.

In addition, the Group is working on setting KRIs related to the environmental pillar in order to monitor C&E risks and to prevent any negative impacts stemming from these risks. Internal reporting will also include the following actions:

- Monitoring of the Energy Performance Certificates of the building stock of the Group's collateral portfolio (both for residential and commercial properties)
- Levels of GHG emissions per sector
- Level of financing on Renewable Energy Projects

### Integration of climate related and environmental risks into the Group's three lines of defence framework

### Three Lines of Defence

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

*First Line of Defence*

The first line of defence includes functions that own and manage risks as part of their responsibility for achieving objectives and are responsible for implementing corrective actions to address process and control deficiencies. Whilst not yet in place, the first line of defence will lead the interaction with the customers as part of the incorporation of the ESG and climate criteria in the credit underwriting process through the ESG questionnaire and scoring process. Furthermore, it will be requested to observe any sector limits being put in place as derived from the science-based targets.

*Second Line of Defence*

The second line of defence includes functions that oversee compliance of the first line with the regulatory framework and management of risk. It comprises of the RMD, Information Security and Compliance functions, with the involvement as necessary of the support functions such as Human Resources (HR) and Legal Services Department (LSD). In terms of ESG and climate, the second line of defence provides support and oversight of risks through:

- developing, maintaining and enhancing the risk management framework covering all operations of the Group (including ESG and climate risks) and considering new risks or amendments to the existing ones;
- developing and maintaining risk, information security and compliance policies within that framework ensuring these are consistent with the Board's risk appetite and the Group's ESG Strategy; and
- providing the necessary reporting on exposures affected by ESG risks and develop the necessary models and tools to facilitate the climate risk assessment.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar III - Risk Management** (continued)

**Integration of climate related and environmental risks into the Group's three lines of defence framework** (continued)

*Third Line of Defence*

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

**Pillar IV - Metrics and Targets**

The Group has disclosed its performance on climate-related metrics and targets based on primary targets set under the ESG strategy. The Group uses such metrics and targets to provide quantitative information on the current status of climate strategy and performance. These figures are regularly assessed by Senior Management through the governance arrangement as presented earlier in 'Pillar I - Governance' section of these TCFD. In the upcoming pages, the Group summarises the operating and financial information to date to guide its progress towards the established impact-reduction and financing goals and the net zero plan.

**Reduction of scope 1 and 2 GHG emissions – Become Carbon neutral by 2030 and Net Zero by 2050**

The Group aims to become carbon-neutral by 2030, by gradually eliminating its scope 1 and 2 GHG emissions.

The Group has estimated the Scope 1 and Scope 2 GHG emissions of 2021 relating to own operations in order to set the baseline for carbon neutrality target. For the Group to meet the carbon neutrality target, the Scope 1 and Scope 2 GHG emissions should be reduced by 42% (absolute target) by 2030. The absolute reduction target has been set following the climate scenario of 1.5°C which is aligned with the Paris Agreement. BOC PCL in 2022, designed the plan of actions to meet the carbon neutrality target by 2030 and progress towards Net Zero target of 2050. The Group is in the process to design the decarbonization strategy for the reduction of Scope 1 and Scope 2 GHG emissions of its subsidiaries.

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

In 2022, BOC PCL has formulated a plan of action to reduce Scope 1 and Scope 2 and meet carbon neutrality target by 2030 and plans to invest in energy efficient installations and actions and replace fuel intensive machineries and vehicles from 2023 to 2025, which would lead to approximately 5-10% reduction in Scope 1 and Scope 2 GHG emissions by 2025 compared to 2021. The Group expects that the Scope 2 GHG emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy.

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

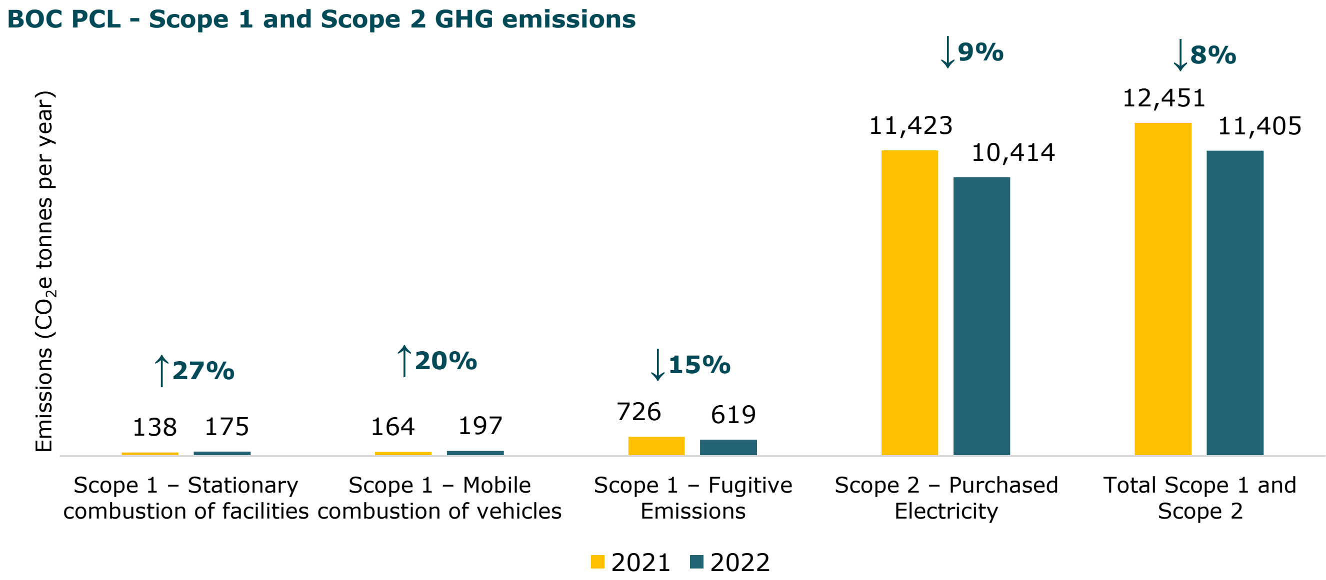
- installation of new solar panels;
- implementation of Energy Management system;
- installation of electric chargers for cars;
- improvement of waste measurement;
- increase initiatives for waste recycling; and
- reduction of paper use.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar IV - Metrics and Targets** (continued)

**Reduction of scope 1 and 2 GHG emissions – Become Carbon neutral by 2030 and Net Zero by 2050** (continued)

BOC PCL, being the main contributor of GHG emissions of the Group, has estimated Scope 1 and Scope 2 GHG emissions for 2022 in order to monitor the progress on carbon neutrality target:




The Scope 1 and Scope 2 GHG emissions of the Subsidiaries of the Group and the non-Financed Scope 3 GHG emissions of the Group will be reported in the Sustainability report of 2022 (the 2022 Sustainability report will be available at the Group's website http://www.bankofcyprus.com (Group/Sustainability/Our Sustainability Reports).

(Note: The 2021 estimated Scope 1 and 2 GHG emissions presented here are slightly different to those reported in the 2021 Sustainability Report due to the following factors: the overestimation of certain Global Warming Potentials (GWP) for Scope 1 Stationary Combustion, re-estimation of Scope 1 Fugitive GHG emissions to include all properties and reallocation of relevant GHG emissions between companies within the wider Group following revised ownership rights.)

**Energy management**

Energy consumption accounts for a large percentage of the GHG emissions of own operations. The Group works to reduce consumption in all aspects of its operations. Optimising the amount of energy consumed helps reduce both the Group's environmental footprint and operational costs. The Group implements initiatives for its branches and owned buildings across Cyprus as well as its Head Office, aiming to make a significant, positive impact on the environment and reduce costs. Renewable energy from solar panels has been extremely important in mitigating the Group's climate change impacts. A reduction of approximately 9% in BOC PCL' Scope 2 GHG emissions has been observed in 2022 compared to 2021 following the installation of energy efficient lighting, installation of Energy Management Systems, on-site photovoltaic systems at eight owned buildings and replacement of old air conditioning units.

BOC PCL has managed to reduce its energy consumption by approximately1.8 million kWh in 2022 compared to 2021. In addition, BOC PCL invests continuously in updating its internal practices, and upgrading equipment and technologies, adopting new standards, and complying with international best practices.

Mobile combustion has been increased by 20% due to the fact that COVID-19 measures were applicable in 2021 whilst no COVID-19 related circulation restrictions were effective in 2022 leading to increased consumption. However, BOC PCL disposed of five passenger vehicles in 2022 and is in the process to establish a policy for all vehicle replacements to be hybrid or electric.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar IV - Metrics and Targets** (continued)

**Energy management** (continued)

Scope 1 GHG emissions relating to Stationary combustion was increased by 27% due to the fact that in one of the buildings the fuel intensive machinery was idle in 2021 but was fully utilised in 2022 for heating purposes due to a mechanical failure on the electricity intensive heating machineries. In addition, fuel consumption was increased in 2022 due to the fact that one building of the Group, which was idle from March 2020 onwards, become fully operational in 2022. These two properties recorded zero stationary combustion GHG emissions in 2021 whilst led to 31.35 tonnes of GHG emissions in 2022.

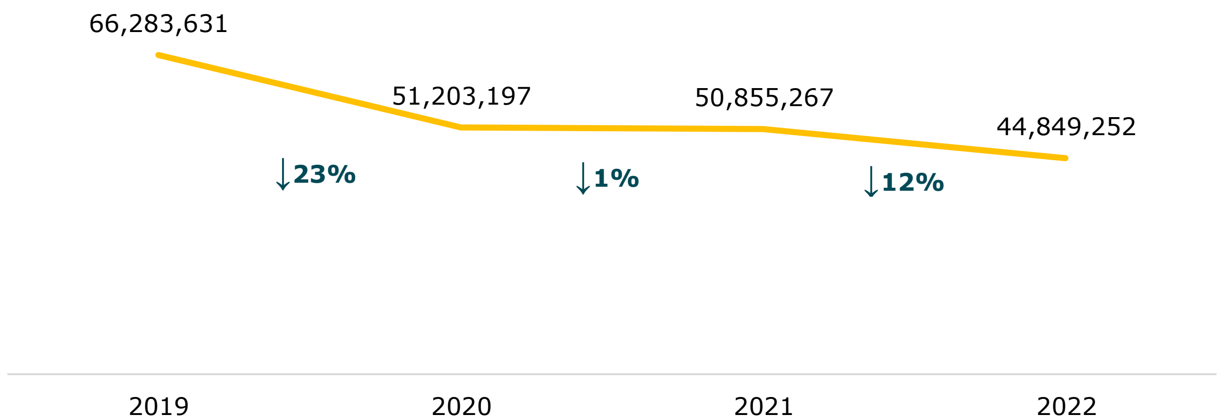
The overall environmental impact relating to Scope 1 and Scope 2 GHG emissions reduced by 1,046 GHG emissions tonnes in 2022 compared to 2021 which represents approximately 8% reduction.

**Resource Management and Recycling**

Throughout the year, the Group runs initiatives, environmental trainings, awareness sessions and internal communication campaigns to increase environmental awareness, improve efficiency and performance, and reduce resource consumption.

Initiatives focus on various environmental aspects, including energy consumption, paper consumption, printing, use of A/C systems. The goal of this initiative was to motivate all employees to act and join the effort to become more efficient when it comes to resource consumption.

**BOC PCL - Paper Consumption (kgs)**




**Reduction of all GHG emissions to become Net Zero by 2050**

BOC PCL has joined the Partnership for Carbon Accounting Financials (PCAF) in October 2022 and is following the recommended methodology for the estimation of the Financed Scope 3 GHG emissions. BOC PCL has estimated Financed Scope 3 GHG emissions relating to the loan portfolio based on PCAF standard and proxies. The PCAF Standard has been reviewed by the GHG Protocol and conforms with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard for category 15 investment activities. In addition, PCAF provides a data quality ranking for the estimation of Financed Scope 3 GHG emissions based on data applied in the estimation for each asset class. The scale is between 1-5 with 1 being the highest quality and 5 being the lowest quality.

BOC PCL aims to continuously enhance the data quality used on the estimation of Financed Scope 3 GHG emissions and eliminate the data gaps, therefore in 2023 a client questionnaire is expected to be launched to gather the relevant data, where possible, as well as continue to enhance the loan origination process. BOC PCL has already established a policy in the loan origination process to gather Energy Performance Certificates (ratings and GHG emissions per square meters) for the financed properties and collateral properties. Additional data gathering actions will be performed during 2023.

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar IV - Metrics and Targets** (continued)

**Reduction of all GHG emissions to become Net Zero by 2050** (continued)

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

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

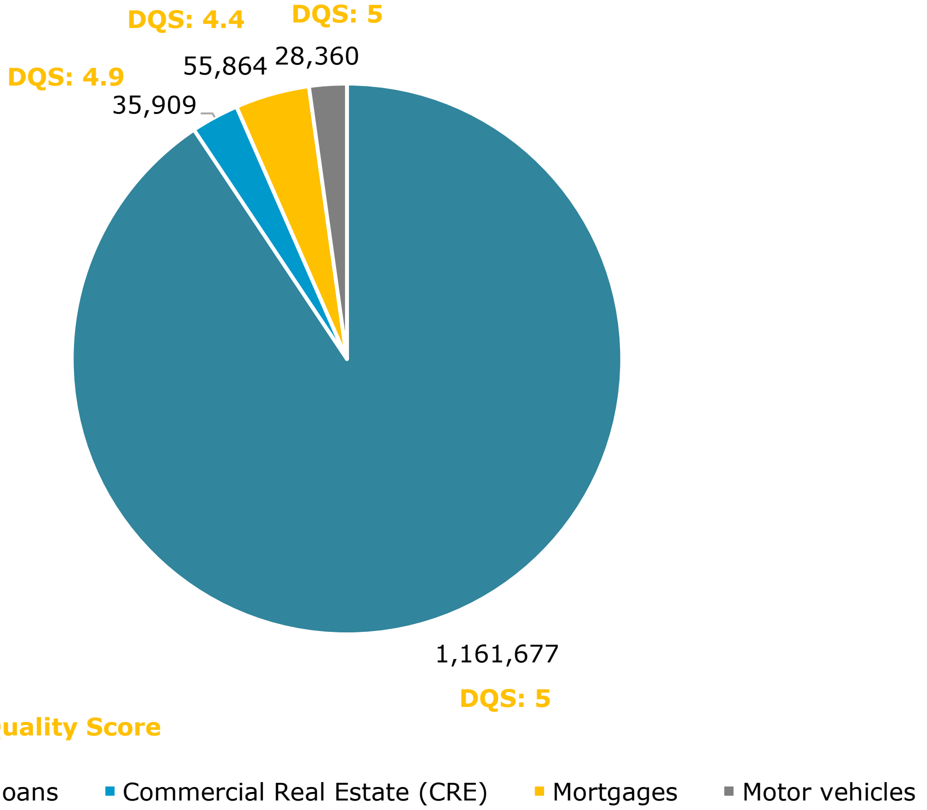
**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar IV - Metrics and Targets** (continued)

**Reduction of all GHG emissions to become Net Zero by 2050** (continued)

The Group estimated the Financed Scope 3 GHG emissions for approximately 88% of Gross Loans and advances portfolio which fall under the above mentioned asset classes. The Group plans to estimate the Financed Scope 3 GHG emissions of its investment and insurance portfolio within 2023. More than approximately 97% of the Group's GHG emissions derived from Financed Scope 3 GHG emissions.

**Financed Scope 3 GHG emissions ($CO_2$e tonnes per year) – 2022 - Loan Portfolio**




In 2023, the Group is expected to set decarbonisation target on its Mortgage portfolio due to the fact that 91%[5] of building stock in Cyprus was built before the implementation of minimum energy performance requirements. Therefore, renovation of building stock in Cyprus is vital for reaching Net Zero by 2050. In 2023, the Group is expected to estimate the Financed Scope 3 GHG emissions per square meter financed in Cyprus and set a decarbonisation reduction target to 2030 using a 1.5°C climate scenario. The decarbonisation target will then inform the Group's strategy from 2023 onwards as it will impact the new mortgage lending strategy as well as the incorporation in the new lending strategy of the provision of finance for improvement in energy performance of residential buildings taking into account any government schemes.

[5] Implementation-of-the-EPBD-in-Cyprus.pdf (epbd-ca.eu)

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar IV - Metrics and Targets** (continued)

**Reduction of all GHG emissions to become Net Zero by 2050** (continued)

Given that the majority of Financed Scope 3 GHG emissions derive from Business Loan asset class, the carbon concentrated sectors under Business Loan asset class have been identified, based on PCAF definition, which are the primary sectors for setting decarbonisation targets. The Group has initiated the process to set decarbonisation targets aligned with a climate scenario for its loan portfolio in 2023. The primary sectors identified under Business Loan asset class are Accommodation and food service activities (12%), Construction (20%), Manufacturing (16%), Transportation and storage (24%) and Wholesale and retail trade (10%).

| BOC PCL – Financed Scope 3 GHG emissions – Business loan asset class | | | |
|---|---|---|---|
| **NACE** | **Sector** | **OS Loan Amount €million** | **Emissions ($CO_2$ tonnes per year) – 2022** |
| H | TRANSPORTATION AND STORAGE | 275 | 281,389 |
| F | CONSTRUCTION | 318 | 236,487 |
| C | MANUFACTURING | 360 | 189,249 |
| I | ACCOMMODATION AND FOOD SERVICE ACTIVITIES | 770 | 135,124 |
| G | WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES | 785 | 119,988 |
| M | PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES | 262 | 46,021 |
| D | ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY | 48 | 48,527 |
| A | AGRICULTURE, FORESTRY AND FISHING | 42 | 22,734 |
| Q | HUMAN HEALTH AND SOCIAL WORK ACTIVITIES | 86 | 19,882 |
| L | REAL ESTATE ACTIVITIES | 685 | 17,325 |
| E | WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES | 4 | 10,541 |
| K | FINANCIAL AND INSURANCE ACTIVITIES | 135 | 10,353 |
| J | INFORMATION AND COMMUNICATION | 33 | 8,013 |
| B | MINING AND QUARRYING | 12 | 5,004 |
| P | EDUCATION | 44 | 3,202 |
| R | ARTS, ENTERTAINMENT AND RECREATION | 15 | 2,876 |
| S | OTHER SERVICE ACTIVITIES | 18 | 2,696 |
| N | ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES | 24 | 2,266 |
| **Total Financed Scope 3 GHG emissions – Loan portfolio** | | **€3,916** | **1,161,677** |

**Task Force on Climate-related Financial Disclosures (TCFD)** (continued)

**Pillar IV - Metrics and Targets** (continued)

**Steadily increase Green Asset and Green Mortgage Ratios**

The Financial sector has an important role to play in addressing the climate crisis by providing the capital needed to expedite the transition to a low-carbon economy that balances our world's environmental, social and economic needs. We are prepared to support the drastic changes needed in our business and in the world's industrial processes, land-use, buildings, transport and other infrastructure to align with the goals of the Paris Agreement.

A key metric to assess progress against this target is the proportion of the Group's climate action financing as a percentage of total financing. In Part B of these 'ESG Disclosures' the Taxonomy eligible exposures as a percentage of the Group's total assets are presented.

The Group has set up a Sustainable Finance Framework which will facilitate the issuance of Green, Social or Sustainable bonds. The proceeds from such bonds will be allocated to eligible activities and products as designated in the Sustainable Finance Framework.

To support this goal, the Group is working to develop a Green Lending Framework where it expects to use the EU Taxonomy as the main consideration to inform criteria for green or transition loans. This framework is expected to be reviewed annually and to evolve as the EU Taxonomy expands.

**PART B:**

**EU Taxonomy Disclosures in accordance with Article 8 of the Taxonomy Regulation**

**Contextual information including the scope of assets and activities covered by the KPIs, information on data sources and limitations**

In accordance with Article 8 of the Taxonomy Regulation and the related Climate Disclosures Delegated Act, starting from year-end 2021, financial undertakings have to disclose the proportion of exposures to Taxonomy-eligible and Taxonomy non-eligible economic activities related to the environmental objectives of climate change adaptation and mitigation for 2022, for which screening criteria have been established under the delegated acts as well as a number of key performance indicators related to the proportion of selected exposures in their total assets. The primary indicator of alignment is the green asset ratio (GAR), which companies must publish from 2024.

Eligibility-related disclosures of financial undertakings with regard to financial or non-financial undertakings in scope of Article 8 of the Taxonomy Regulation shall be based on actual information provided by them. Given that this information is due to be disclosed in course of 2022 after the issuing date of this Annual Financial Report, the assessment of Taxonomy eligible economic activities of corporate undertakings based on the Climate Disclosures Delegated Act is currently not fully possible.

Accordingly, the Group is reporting only household related exposures as Taxonomy eligible exposures for the year-end 2022 and 2021. In the denominator, the Group includes local government financing, financial corporations (FCs), non-financial corporations (NFCs), derivatives, on demand interbank loans, cash and cash-related assets and other assets. The scope of activities covered includes the eligible activities under climate change mitigation (CCM)[1] and climate change adaptation (CCA)[2]. Total exposure for other assets not covered in either denominator or numerator has been provided for central governments, central banks and supranational issuers, and the trading portfolio.

The Complementary Climate Delegated Act including specific nuclear and gas energy activities published in July 2022, requires the Group to assess and disclose taxonomy-eligibility and non-eligibility of nuclear and fossil gas-related activities at 31 December 2022. While the Group has no direct exposure to the specific nuclear activities and fossil gas related activities, it has exposure to customers involved in the use of fossil gaseous fuels to facilitate power generation activities.

Additional qualitative information with respect to the Group's environmentally friendly products, Green Lending policy and Environmental and Social Policy are provided under 'Pillar II - Strategy' section of Part A-TCFD of these disclosures.

The following table outlines the breakdown of Taxonomy-eligible assets on the balance sheet with reference to disclosure requirements for 2022. The Group will continue to develop its disclosures over the coming years as requirements and data availability increase. This table is prepared on the prudential scope of consolidation per FINREP. The below metrics are unaudited and have been prepared in line with available guidance to the best of the Group's ability.

[1]CCM: The process of holding the increase in the global average temperature to well below 2 C and pursuing efforts to limit it to 1.5°C above pre-industrial levels, as laid down in the Paris Agreement.
[2]CCA: The process of adjustment to actual and expected climate change and its impacts.

**EU Taxonomy - Disclosures in accordance with Article 8 of the Taxonomy Regulation** (continued)

| | 31 December 2022 | |
|---|---|---|
| **Assets covered in both numerator and denominator** | **€million** | **% of total assets** |
| Households | 3,884 | 16% |
| Local government financing | 47 | 0% |
| **Taxonomy eligible economic activities** | **3,931** | **16%** |
| **Assets excluded from the numerator (covered only in the denominator)** | | |
| Exposures & investments to NFCs not subject to NFRD | 4,870 | 20% |
| Exposures & investments to FCs not subject to NFRD | 348 | 1% |
| On-demand inter-bank loans | 119 | 1% |
| Derivatives-non trading book | 44 | 0% |
| Properties (stock of properties and investment properties) | 1,091 | 5% |
| Exposures & investments to FCs subject to NFRD | 824 | 3% |
| Exposures & investments to NFCs subject to NFRD | 264 | 1% |
| Exposures to retail sector not included in the numerator | 814 | 3% |
| Other assets (own-use property approximately/assets held for sale etc.) | 1,168 | 5% |
| **Taxonomy non-eligible activities** | **9,542** | **39%** |
| **Total covered assets** | **13,473** | **55%** |
| **Other assets not covered in either denominator or numerator** | | |
| Exposures to Central Governments | 1,111 | 4% |
| Exposures to Central Banks | 9,476 | 39% |
| Sovereigns | 137 | 1% |
| Supranational Exposures | 294 | 1% |
| Trading book exposures | 4 | 0% |
| **Total assets not covered in either denominator or numerator** | **11,021** | **45%** |
| **Total assets** | **24,494** | **100%** |

Taxonomy eligible economic activities as a percentage of total assets amount to 16% for the year ended 31 December 2022, whereas non-eligible economic activities amount to 39% of total assets for the year ended 31 December 2022. Total derivative exposures as a % of total assets amount to less than 1% for 2022.

**PART C:**

**Non-financial information statement**

The Group plays a key role in driving economic growth of Cyprus with a long presence and a dominant market position. Sustainable development, social progress, environmental integrity, climate stability and a viable economy are all among the Group's key targets for 2022 and beyond.

The Group publishes its Annual Non-Financial Results based on the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) guidelines and standards, which identify and include all the above information. The Corporate Sustainability Report 2022 will be available at the Group's website http://www.bankofcyprus.com (Group/Sustainability/Our Sustainability Reports).

***Commitment to Sustainability***
Climate change and transition to a sustainable economy is one of the greatest challenges. As part of its vision to be the leading financial hub in Cyprus, the Group is determined to lead the transition of Cyprus to a sustainable future. The Group continuously evolves towards its ESG agenda and continues to make progress towards building a forward-looking organisation embracing ESG in all aspects of business as usual.

The Group acts with transparency and accountability, in line with its code of ethics, and aspires to lead in an era characterised by exponential change, disruption and digitalisation through its innovative approach. The Group remains consistent and committed towards all its stakeholders; investors, customers, shareholders, employees and the society.

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

***Employees***
The Group recognises the significance of investing in employee empowerment and development.

Employee Engagement
As of 31 December 2022, the Group employed 2,889 employees compared to 3,438 persons as at 31 December 2021. Analysis per geographical location of the Group's average number of employees (full time) and analysis of the average number of employees in Cyprus per business line for 2022 is disclosed in Note 14 of the Consolidated Financial Statements. BOC PCL has developed policies to safeguard gender equality, diversity and inclusion. Policies, procedures, training and a series of tools are available to ensure the Group fosters a culture of meritocracy and fairness. Following the agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement for the years 2021 and 2022 a performance-based pay structure was introduced across the Group to drive greater alignment with Group's strategy and ambition.

In 2022, under the 'Organisational Health' project, the Group executed two Pulse check surveys. The Pulse checks remain valuable tools to reassess peoples' perspectives, management's commitment and engagement around the Group's selected health priorities (Personal Ownership, Knowledge Sharing, Employee Involvement and Career Opportunities). Following Pulse checks all practices were improved and dedicated Group and Divisional action plans were designed.

BOC PCL has continued to upgrade its staff's skill set by providing training and development opportunities to all staff, and capitalising on modern delivery methods. In 2022, BOC PCL heightened its emphasis on staff wellness by offering webinars, team building activities and family events with sole purpose to enhance mental, physical, financial and social health, attended by 1,424 employees, through its 'Well-at-Work program'.

**Non-financial information statement** (continued)

Learning and Development
Under the Group's Learning and Development Policy, in 2022 the training programmes delivered were based on the following training pillars:

- Systems and data - Provide reskilling and upskilling opportunities to unlock people's potentials and help them to better cope with the ongoing changing professional needs and skills.
- Capability building training - Evolve management skills of middle management to better manage, engage with people and develop further senior management leadership styles to inspire people and drive change.
- Business Driven training - Provide ongoing training opportunities to keep people up to date with regulatory, compliance, information security etc. knowledge, to perform with integrity and professionalism.

As the pandemic restrictions subsided during 2022, training programs offered to members of staff increased by 32% in 2022 in comparison to 2021 and total training hours offered increased by 35% in comparison to 2021. In 2022, 100% of employees received training, with a total of 67,326 training hours being offered. Further to the provision of e-learnings and live webinars, the Group provided 75 physical trainings and programs totalling 13,603 hours during 2022.

Health and Safety
The Health and Safety (H&S) of employees, customers and associates is of primary responsibility for the Group. The objective has always been to prevent work-related injuries and ensure H&S at the workplace through the effective management of related risks.

In 2022 the Group H&S Policy and the internal procedures were revised so as to ensure compliance with the new H&S regulations. Employees were trained on H&S issues and procedures through an e-learning course. In addition, training sessions were conducted for the Presidents of the Safety Committees and key persons of the H&S team, the Compliance Liaisons and the First Aiders. The Group conducts evacuation exercises once a year nationwide for the emergency procedures, including earthquakes and fire. Identified risks through the risk assessments have been properly addressed throughout the year. Our approach is to provide assurance that risks are being properly managed and make our people feel safe. In 2022, BOC PCL continued emphasizing staff wellness offering seminars on Healthy Eating and Mental Health in the workplace, through its 'Well at Work program'.

*Society*
The Group's CSR Strategy and CSR Programme contribute to the Social Pillar of the ESG Strategy and support the Group's selected United Nations Sustainability Development Goals (SDGs). The Group's CSR programme and all relevant initiatives are compatible with its core business and enhance the Group's overall strategy and vision. The CSR Strategy clearly indicates the move from issuing a cheque and requesting logo placement, to examining, contributing, engaging and finally, committing to the cause of support. The Group's Donations, Sponsorships and Partnerships Policy covers the Group's engagement with key partners, customers and other stakeholders which aim to create sustainable social impact and material difference to the community.

The Group's Social Programme responds when:
- A compelling societal need exists.
- The said need is not fully served by the public sector.
- The proposed actions/strategies best serve all the Group's stakeholders (investors, customers, employees, shareholders, regulators etc.).

In 2022 the Group continued to undertake sustainable support to the local community with Health Pillar initiatives, and Education Pillar initiatives, based on the relevant policy and strategy. Additionally, the Group continued to develop initiatives that aimed to preserve local culture and history, through the Bank of Cyprus Cultural Foundation and to enhance innovation and start-ups through the IDEA Innovation Centre. The Group successfully continued and expanded the operation of the award winning SupportCY network of companies and NGOs.

**Non-financial information statement** (continued)

*Society* (continued)
SupportCY was created in March 2020, in order to support public services performing frontline duties during the COVID-19 pandemic, its actions led by BOC PCL expanded in supporting various societal needs. At the same time, it continued to generate Social Capital which is both sustainable and more effective, by bringing businesses and organisations together to share what each does best, in responding to specific needs. By 31 December 2022, the SupportCY network had more than 167 members, while the SupportCY Crises and Disasters Respond Center, the SupportCY Volunteers Corps and SupportCY House, continue to operate and expand in order to satisfy and cover even more needs of the Cyprus society, and beyond. By 31 December 2022, the SupportCY initiative contributed to society, more than €880,000 worth in funds services and products with BOC PCL contributing most of the monetary support.

To support all the above actions, BOC PCL contributed approximately €620,000 for the support and enhancement of more than 90 NGOs, associations, charity organisations, municipalities, schools, sports federations, and sports academies, while offering refurbished computers and other office equipment to schools, associations and NGOs from BOC PCL's stock.

The main sustainable support actions within the three pillars of Health, Environment and Education, are indicated below.

Health pillar main actions:
- More than 55,000 patients have been treated at the Bank of Cyprus Oncology Centre since its establishment by BOC PCL and the Cyprus Government in 1998, while the Group continued offering extensive support, financial and otherwise, towards the Centre. The cumulative contribution of the Group to the Bank of Cyprus Oncology Centre is approximately €70 million.
- The Group coordinated for one more year the 'Fight against Cancer' campaign with the Cyprus Anticancer Society, customised to meet pandemic related social distancing and other rules. The campaign resulted in fund raising of €446,000, recording an increase of around 36% relating to the past year.
- In 2022, the Group repeated its provision of financial and other medical support to families in need through key NGOs, based on the Donations, Sponsorships and Partnerships Policy, and within the SupportCY network. Additionally, the Group partners work with, and support several Patient Associations.

Education pillar main actions:
- The Bank of Cyprus Cultural Foundation ('the Foundation') is a non-profit organisation established in 1984, protecting cultural heritage and supporting youth, curating two museums and five rare collections. The main strategic objectives of the Foundation are the promotion of research, the study of Cypriot culture in the fields of archaeology, history, art and literature, the preservation and dissemination of the cultural and natural heritage of Cyprus, with particular emphasis on the international promotion of the long-standing Greek culture on the island, the shift to research and development of cultural sustainability through European grants and the upgrading and promotion of the educational role of the Foundation. In addition, the Foundation is developing and upgrading the institution's social role for vulnerable/disadvantaged groups, aiming at permanent changes/adaptations in its museums and actions that promote and facilitate the participation of all vulnerable/disadvantaged groups in culture. The Foundation has more than 250 Cyprological editions, has organised and participated in more than 60 exhibitions in Cyprus and abroad, 100 conferences and more than 10,000 children have participated in its educational programmes since establishment.
- In 2022 IDEA was recognised as a valuable partner by the State through the signing of a Memorandum of Understanding with the Ministry of Research, Innovation & Digital Policy, thus materialising its strategic pillar for Public-Private Sector cooperation. The Memorandum included a grant of €100,000 for two IDEA start-ups, as well as joint activities to strengthen youth innovative entrepreneurship. IDEA's cornerstone is its Startup Programme, a comprehensive business creation training program, which hosts start-ups for a period of nine months. Through its extensive panel of more than 80 high-profile mentors and trainers working mostly pro-bono, start-ups work closely with industry experts to receive feedback, mentoring, consultation and professional services. In 2022 IDEA has brought to life innovative businesses relating to healthtec, greentec and tourism sectors, through its current five start-ups.
- In 2022, the Group repeated the partnerships with various organisations to boost efforts around education, innovation and ingenuity. Additionally, the Group awards excellence and creativity among students, but also recognises students who stand out in international and local competitions, through awards and prizes. The Group also awarded talented youth in sports, through sport associations and academies.

**Non-financial information statement** (continued)

Education pillar main actions: (continued)

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

*Environment*

The Group aspires to increase its positive impact on environment and maintain its leading role in the social and governance pillars by transforming not only its own operations, but also the operations of its customers. Further details on the Group's strategy and actions to deliver on the Group's ambitions are disclosed in Part A - TCFD of these 'ESG Disclosures' and in Section 'Business Overview' in the Directors' Report.

During 2022, the Group initiated more environmental programmes in partnerships with expert Non-Governmental Organisations ('NGOs') and other entities, focusing on climate change impacts and the prevention, response to and recovery of forest fires, biodiversity and sea pollution.

Environmental pillar main actions:

- The 'Melissa Zoi' Centre, a bee artificial insemination project for biodiversity, was inaugurated in June 2022, by BOC PCL and the Rotary Clubs of Cyprus. The initiative aims to revitalise the environment and restore economic activity to areas where honey is produced, and which were devastated by wildfires. The 2021 wildfires affected about 75% of beehives so the project aims to revive the destroyed ecosystem, revitalising the affected honey-producing communities. The goal is to provide the necessary support to nature and to the communities that suffer environmentally, financially and professionally. The Centre's operation will benefit nine communities and 38 small and medium-sized honey-making businesses.
- 'Seaμμαχία', a joint Sea Venture, is a project funded by BOC PCL and includes the study and installation of a pilot system for monitoring the quality of sea water in the area of the Ayia Napa Marina in Cyprus. The purpose is to monitor and record important water quality parameters in real time. The main goal of the project is the provision of early detection of pollution indices, which in turn will provide warnings for necessary corrective actions to ensure environmental protection, not only for the Ayia Napa area, but also other coasts of Cyprus thus creating a national sea water quality control system. The pilot program will be implemented by the EMERGE research group of the Cyprus University of Technology in collaboration with CYMEPA and the Ayia Napa Marina.
- BOC PCL and SupportCY businesses and organizations joined forces and supported the Forest Department in the prevention and protection of Cypriot forests. Prevention measures and actions related to public awareness on the protection of forests, as well as fire protection programmes in the forests of Cyprus, were launched in the summer of 2022. Based on official statistical surveys, prevention is the most important factor in the protection of forests. A series of forest patrols has been programmed by the SupportCY Volunteers Corps and the Crises and Disasters Centre. Concurrently, educational and informative actions have been planned in shopping centres and rural municipalities with the collaboration of the Forest Department.
- 'Rescue 3 Europe' has certified five members of BOC PCL's SupportCY Volunteers Corps as 'Swiftwater' and 'Flood First Responders' after undergoing intense training in Greece. The certified members will be mobilized to support and deal with the event of flood.
- SupportCY's members, partnered organisations and state agencies planted 180 trees at Lourka Forest in Geri in 2022. The tree planting locations are designated by the Department of Forests, partnered up with BOC PCL and SupportCY for tree planting activities.

*Human Rights and Equal Opportunities*

The Group's Code of Ethics sets out clearly the ethical moral principles and values upheld by the Group and provides a framework for expected behaviour and guides the Group's workforce to appropriate conduct. The Group acknowledges its responsibility to respect human rights as set out in the International Bill of Human Rights and follows internationally acclaimed directives, principles and initiatives to protect human rights, such as the Core Labour Conventions of the International Labour Organisation (ILO) and the Universal Declaration of Human Rights (UDHR).

**Non-financial information statement** (continued)

*Human Rights and Equal Opportunities (continued)*
The Group has policies to ensure gender equality, diversity and inclusion and operates based on objective criteria related to ability, ethics and experience, regardless of colour, race, national/ethnic origin, disability, age, gender, religion, sexual orientation or political opinion. Policies and procedures, as well as training and a range of tools are available to ensure that the Group promotes a culture of equality. The zero-tolerance policy on discrimination, harassment and bullying is designed to effectively manage and ultimately eliminate any form of harassment, discrimination or unfair treatment.

In order to mitigate against human rights risk, or violations that may occur, BOC PCL has comprehensive due diligence procedures in place, which include: the implementation of the Code of Conduct which defines specific behaviours, practices, responsibilities and rules for staff of the Group to follow and uphold as staff members of the Bank of Cyprus Group and a suite of reporting mechanisms to support the timely reporting of issues.

*Combating bribery and issues related to corruption*
The Group's fundamental values and principles governing its business activities emphasise the importance of ensuring ethical conduct at all times. Protecting the integrity of the financial system from financial crime risks including money laundering, terrorist financing and bribery and corruption is of intrinsic importance to the Group.

The Group abides by a zero-tolerance policy on money laundering, tax evasion, funding of terrorist activity, bribery, corruption fraud and market abuse. A strong anti-bribery policy, a gift registry, a conflict-of-interest registry and frequent reminders contribute to achieving high-level compliance. Protecting money, privacy and data of the Group's customers is the key to its Anti-Bribery and Corruption Policy. Key Codes and policies in managing such matters are the Group's Code of Ethics, the Group's Code of Conduct, the Group's Anti-Bribery and Corruption Policy, the Conflicts of Interest Group Policy, the Group Whistleblowing Policy and the Group Policy Relating to the Prevention of Money Laundering and Terrorism Financing.

Training programs on anti-money laundering and anti-corruption policies and procedures are carried out by the employees on an annual basis.

The Group maintains an Anti-Financial Crime Framework. An enhanced risk-based approach with regard to the risk scoring of the customers is followed and this is reflected in BOC PCL's Customer Acceptance Policy. Customers are risk-scored for AML purposes, according to a set of parameters that take into account geographical factors, products purchased, distribution channels, transactional behaviour and other risk indicating factors. Customers go through the Group's due diligence process at the on-boarding stage and on an ongoing basis, which is driven by the risk assessment of the customer. Some customers and beneficial owners present higher risk (e.g., politically exposed persons (PEPs) and/or customers established/residing in 'high-risk' third countries). For these customers enhanced due diligence is applied. Further, the Group commits itself to safeguarding the personal data of its customers, suppliers and partners. Customers retain control of their personal data and exercise their rights as per the EU GDPR with regard to the way their personal data is collected, processed and secured. The Group applies Data Protection Impact Assessment (DPIAs), to promptly identify and mitigate any privacy risks.

All employees and Directors are made aware of the Regulatory Compliance Policies and standards.

***Diversity Report***
The Group's diversity report is contained in the 'Diversity' section of the Corporate Governance Report.

***Business Model***
The business model of the Group is described in the 'Business Overview' and 'Strategy and Outlook' sections of the 'Directors' Report' within the Annual Financial Report 2022.

**Non-financial information statement** (continued)

***Risk Management***

A description of the principal risks, their impact on business activity, and the way they are managed is disclosed in section 'Principal risks and uncertainties - Risk management and mitigation' of the 'Directors' Report' and section 'Pillar III – Risk Management' of Part A - TCFD of these 'ESG Disclosures' and in the 'Risk and Capital Management Report' all forming part of this Annual Financial Report.

The risks related to the Group's corporate responsibility actions and the actions undertaken by the Group in order to address them are covered within each pillar of responsibility.

***Key Performance Indicators***

An analysis of KPIs relevant to the Group is disclosed in the 'Financial Results' section of the Directors' Report. Climate and Environmental KPIs are disclosed in the 'Pillar IV – Metrics and Targets' section of Part A - TCFD of these 'ESG Disclosures'.

# Consolidated Financial Statements for 2022

**Contents**

# Consolidated Income Statement
## for the year ended 31 December 2022

| | Notes | 2022<br>€000 | 2021 (restated)<br>€000 |
|---|---|---|---|
| **Turnover** | *6* | **904,640** | 754,652 |
| Interest income | *7* | **429,276** | 360,947 |
| Income similar to interest income | *7* | **22,119** | 27,621 |
| Interest expense | *8* | **(65,376)** | (66,760) |
| Expense similar to interest expense | *8* | **(14,840)** | (25,192) |
| *Net interest income* | | **371,179** | 296,616 |
| Fee and commission income | *9* | **202,583** | 180,212 |
| Fee and commission expense | *9* | **(10,299)** | (8,416) |
| Net foreign exchange gains | *10* | **31,291** | 16,503 |
| Net gains/(losses) on financial instruments | *11* | **10,052** | (21,323) |
| Net gains on derecognition of financial assets measured at amortised cost | | **5,235** | 3,859 |
| Income from assets under insurance and reinsurance contracts | *12* | **114,681** | 205,861 |
| Expenses from liabilities under insurance and reinsurance contracts | *12* | **(43,542)** | (144,817) |
| Net losses from revaluation and disposal of investment properties | *6* | **(999)** | (1,828) |
| Net gains on disposal of stock of property | *27* | **13,970** | 13,296 |
| Other income | *13* | **16,681** | 14,244 |
| *Total operating income* | | **710,832** | 554,207 |
| Staff costs | *14* | **(294,361)** | (218,633) |
| Special levy on deposits and other levies/contributions | *15* | **(38,492)** | (36,350) |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | *39* | **(11,880)** | 523 |
| Other operating expenses | *15* | **(166,689)** | (170,318) |
| *Operating profit before credit losses and impairment* | | **199,410** | 129,429 |
| Credit losses on financial assets | *16* | **(59,529)** | (46,144) |
| Impairment net of reversals on non-financial assets | *16* | **(29,549)** | (49,456) |
| **Profit before tax** | | **110,332** | 33,829 |
| Income tax | *17* | **(35,471)** | (4,161) |
| **Profit after tax for the year** | | **74,861** | 29,668 |
| **Attributable to:** | | | |
| Owners of the Company | | **71,995** | 27,500 |
| Non-controlling interests | | **2,866** | 2,168 |
| **Profit for the year** | | **74,861** | 29,668 |
| | | | |
| **Basic and diluted profit per share attributable to the owners of the Company (€ cent)** | *18* | **0.8** | 0.3 |

| | Notes | 2022 €000 | 2021 €000 |
|---|---|---|---|
| **Profit for the year** | | **74,861** | 29,668 |
| **Other comprehensive income (OCI)** | | | |
| **OCI that may be reclassified in the consolidated income statement in subsequent periods** | | **(13,309)** | (550) |
| **Fair value reserve (debt instruments)** | | **(11,197)** | (398) |
| Net losses on investments in debt instruments measured at fair value through OCI (FVOCI) | | **(9,935)** | (398) |
| Transfer to the consolidated income statement on disposal | | **(1,262)** | - |
| | | | |
| **Foreign currency translation reserve** | | **(2,112)** | (152) |
| Profit/(loss) on translation of net investments in foreign branches and subsidiaries | | **1,967** | (7,881) |
| (Loss)/gain on hedging of net investments in foreign branches and subsidiaries | *21* | **(4,079)** | 7,797 |
| Transfer to the consolidated income statement on dissolution/disposal of foreign branches and subsidiaries | | **-** | (68) |
| | | | |
| **OCI not to be reclassified in the consolidated income statement in subsequent periods** | | **(6,059)** | 6,475 |
| **Fair value reserve (equity instruments)** | | **(2,015)** | 789 |
| Net (losses)/gains on investments in equity instruments designated at FVOCI | | **(2,015)** | 789 |
| | | **-** | - |
| **Property revaluation reserve** | | **244** | 535 |
| Fair value gain before tax | *25* | **-** | 408 |
| Deferred tax | *17* | **244** | 127 |
| | | | |
| **Actuarial (losses)/gains on defined benefit plans** | | **(4,288)** | 5,151 |
| Remeasurement (losses)/gains on defined benefit plans | *14* | **(4,288)** | 5,151 |
| | | | |
| **Other comprehensive (loss)/income for the year net of taxation** | | **(19,368)** | 5,925 |
| **Total comprehensive income for the year** | | **55,493** | 35,593 |
| | | | |
| **Attributable to:** | | | |
| Owners of the Company | | **52,627** | 33,440 |
| Non-controlling interests | | **2,866** | 2,153 |
| **Total comprehensive income for the year** | | **55,493** | 35,593 |

| | Notes | 2022 €000 | 2021 (restated) €000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 19 | **9,567,258** | 9,230,883 |
| Loans and advances to banks | 19 | **204,811** | 291,632 |
| Derivative financial assets | 21 | **48,153** | 6,653 |
| Investments at FVPL | 20 | **190,209** | 199,194 |
| Investments at FVOCI | 20 | **467,375** | 748,695 |
| Investments at amortised cost | 20 | **2,046,119** | 1,191,274 |
| Loans and advances to customers | 23 | **9,961,642** | 9,836,405 |
| Life insurance business assets attributable to policyholders | 24 | **542,321** | 551,797 |
| Prepayments, accrued income and other assets | 28 | **639,690** | 616,307 |
| Stock of property | 27 | **1,041,032** | 1,111,604 |
| Investment properties | 22 | **85,099** | 117,745 |
| Deferred tax assets | 17 | **227,521** | 265,481 |
| Property and equipment | 25 | **253,378** | 252,130 |
| Intangible assets | 26 | **168,322** | 184,034 |
| Non-current assets and disposal groups held for sale | 29 | **-** | 358,951 |
| **Total assets** | | **25,442,930** | 24,962,785 |
| **Liabilities** | | | |
| Deposits by banks | | **507,658** | 457,039 |
| Funding from central banks | 30 | **1,976,674** | 2,969,600 |
| Derivative financial liabilities | 21 | **16,169** | 32,452 |
| Customer deposits | 31 | **18,998,319** | 17,530,883 |
| Insurance liabilities | 32 | **679,952** | 736,201 |
| Accruals, deferred income, other liabilities and other provisions | 34 | **386,853** | 362,026 |
| Provisions for pending litigation, claims, regulatory and other matters | 39 | **127,607** | 104,108 |
| Debt securities in issue | 33 | **297,636** | 302,555 |
| Subordinated liabilities | 33 | **303,812** | 342,373 |
| Deferred tax liabilities | 17 | **43,822** | 46,435 |
| **Total liabilities** | | **23,338,502** | 22,883,672 |
| **Equity** | | | |
| Share capital | 35 | **959,794** | 959,794 |
| Share premium | 35 | **1,250** | 1,250 |
| Revaluation and other reserves | | **199,703** | 234,655 |
| Retained earnings | 37 | **701,381** | 640,980 |
| **Equity attributable to the owners of the Company** | | **1,862,128** | 1,836,679 |
| Other equity instruments | 35 | **220,000** | 220,000 |
| **Non-controlling interests** | | **22,300** | 22,434 |
| **Total equity** | | **2,104,428** | 2,079,113 |
| **Total liabilities and equity** | | **25,442,930** | 24,962,785 |

**Mr. E.G. Arapoglou**
Chairman

**Mr. P. Nicolaou**
Chief Executive Officer

**Mr. N. Sofianos**
Director

**Mrs. E. Livadiotou**
Executive Director Finance& Legacy

# Consolidated Statement of Changes in Equity
## for the year ended 31 December 2022

| | Attributable to the owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 35) | Share premium (Note 35) | Other capital reserves (Note 14) | Retained earnings (Note 37) | Property revaluation reserve | Financial instruments fair value reserve | Life insurance in-force business reserve | Foreign currency translation reserve | **Total** | Other equity instruments (Note 35) | Non-controlling interests | **Total equity** |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** | €000 | €000 | **€000** |
| **1 January 2022** | 959,794 | 1,250 | - | 640,980 | 80,060 | 23,285 | 113,651 | 17,659 | **1,836,679** | 220,000 | 22,434 | **2,079,113** |
| Profit for the year | - | - | - | 71,995 | - | - | - | - | **71,995** | - | 2,866 | **74,861** |
| Other comprehensive (loss)/income after tax for the year | - | - | - | (4,288) | 244 | (13,212) | - | (2,112) | **(19,368)** | - | - | **(19,368)** |
| Total comprehensive income/(loss) after tax for the year | - | - | - | 67,707 | 244 | (13,212) | - | (2,112) | **52,627** | - | 2,866 | **55,493** |
| Decrease in value of in-force life insurance business | - | - | - | 14,114 | - | - | (14,114) | - | **-** | - | - | **-** |
| Tax on decrease in value of in-force life insurance business | - | - | - | (1,764) | - | - | 1,764 | - | **-** | - | - | **-** |
| Share-based benefits - cost | - | - | 322 | - | - | - | - | - | **322** | - | - | **322** |
| Payment of coupon to AT1 holders (Note 35) | - | - | - | (27,500) | - | - | - | - | **(27,500)** | - | - | **(27,500)** |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | **-** | - | (3,000) | **(3,000)** |
| Transfers to retained earnings | - | - | - | 7,844 | (6,134) | (2,931) | - | 1,221 | - | - | - | **-** |
| **31 December 2022** | **959,794** | **1,250** | **322** | **701,381** | **74,170** | **7,142** | **101,301** | **16,768** | **1,862,128** | **220,000** | **22,300** | **2,104,428** |

# Consolidated Statement of Changes in Equity
## for the year ended 31 December 2022

| | Attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 35) | Share premium (Note 35) | Retained earnings (Note 37) | Property revaluation reserve | Financial instruments fair value reserve | Life insurance in-force business reserve | Foreign currency translation reserve | **Total** | Other equity instruments (Note 35) | Non-controlling interests | **Total equity** |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** | €000 | €000 | **€000** |
| **1 January 2021** | 959,794 | 1,250 | 639,079 | 79,515 | 22,894 | 110,401 | 17,806 | **1,830,739** | 220,000 | 24,410 | **2,075,149** |
| Profit for the year | - | - | 27,500 | - | - | - | - | **27,500** | - | 2,168 | **29,668** |
| Other comprehensive income/(loss) after tax for the year | - | - | 5,151 | 545 | 391 | - | (147) | **5,940** | - | (15) | **5,925** |
| Total comprehensive income/(loss) after tax for the year | - | - | 32,651 | 545 | 391 | - | (147) | **33,440** | - | 2,153 | **35,593** |
| Increase in value of in-force life insurance business | - | - | (3,714) | - | - | 3,714 | - | **-** | - | - | **-** |
| Tax on increase in value of in-force life insurance business | - | - | 464 | - | - | (464) | - | **-** | - | - | **-** |
| Payment of coupon to AT1 holders (Note 35) | - | - | (27,500) | - | - | - | - | **(27,500)** | - | - | **(27,500)** |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | **-** | - | (2,110) | **(2,110)** |
| Impact on NCI due to disposal of subsidiary (Note 51) | - | - | - | - | - | - | - | **-** | - | (2,019) | **(2,019)** |
| **31 December 2021** | **959,794** | **1,250** | **640,980** | **80,060** | **23,285** | **113,651** | **17,659** | **1,836,679** | **220,000** | **22,434** | **2,079,113** |

## Consolidated Statement of Cash Flows
## for the year ended 31 December 2022

| | | **2022** | 2021 (restated) |
|---|---|---|---|
| | *Note* | **€000** | €000 |
| Profit before tax | | **110,332** | 33,829 |
| *Adjustments for:* | | | |
| Share of profit from associates | | **-** | (137) |
| Depreciation of property and equipment and amortisation of intangible assets | | **34,203** | 34,928 |
| Impairment of stock of property and other non-financial assets | | **29,549** | 49,456 |
| Change in value of in-force life insurance business | | **14,114** | (3,714) |
| Credit losses on financial assets | *16* | **59,529** | 46,144 |
| Net gains on derecognition of financial assets measured at amortised cost | | **(5,235)** | (3,859) |
| Amortisation of discounts/premiums and interest on debt securities | | **(21,344)** | (20,102) |
| Dividend income | | **(940)** | (1,774) |
| Net loss on disposal of investment in debt securities measured at FVOCI | | **2,384** | - |
| Loss from revaluation of debt securities designated as fair value hedges | | **51,839** | 16,779 |
| Interest on subordinated liabilities and debt securities in issue | | **28,070** | 27,390 |
| Negative interest on loans and advances to banks and balances with central banks | | **23,184** | 31,919 |
| Negative interest on funding from central banks | | **(18,418)** | (25,094) |
| Loss on disposal/dissolution of subsidiaries and associates | | **-** | 724 |
| Loss from buyback of subordinated loan stock | *11* | **-** | 12,558 |
| Net gains on disposal of stock of property and investment properties | | **(15,886)** | (14,251) |
| Loss/(profit) on sale and write offs of property and equipment and intangible assets | | **13** | (7) |
| Interest expense on lease liability | | **114** | 121 |
| Net losses from revaluation of investment properties | | **2,915** | 2,783 |
| | | **294,423** | 187,693 |
| *Change in:* | | | |
| Loans and advances to banks | | **28,996** | (23,955) |
| Deposits by banks | | **50,619** | 65,090 |
| Obligatory balances with central banks | | **52,450** | (8,956) |
| Customer deposits | | **1,467,436** | 997,671 |
| Life insurance assets and liabilities | | **(46,773)** | (13,012) |
| Loans and advances to customers | | **(231,946)** | (236,965) |
| Prepayments, accrued income and other assets | | **(11,615)** | 89,765 |
| Provisions for pending litigation, claims, regulatory and other matters | | **4,132** | (46,671) |
| Accruals, deferred income, other liabilities and other provisions | | **17,570** | 21,648 |
| Derivative financial instruments | | **(57,783)** | 4,448 |
| Investments measured at FVPL | | **8,985** | (2,103) |
| Stock of property | | **153,311** | 136,816 |
| | | **1,729,805** | 1,171,469 |
| Tax paid | | **(6,375)** | (1,984) |
| **Net cash from operating activities** | | **1,723,430** | 1,169,485 |
| **Cash flows from investing activities** | | | |
| Purchases of debt, treasury bills and equity securities | | **(1,101,030)** | (619,379) |
| Proceeds on disposal/redemption of investments in debt and equity securities | | **454,145** | 382,888 |
| Net exchange differences | | **(20,686)** | (23,924) |
| Interest received from debt securities | | **30,929** | 27,324 |
| Dividend income from equity securities | | **940** | 1,774 |
| Proceeds on disposal of held for sale portfolios | | **332,151** | 145,030 |
| Deposits on held for sale portfolios | | **-** | 19,225 |
| Proceeds on disposal of subsidiaries and associates | | **-** | 9,535 |
| Purchases of property and equipment | *25* | **(6,752)** | (6,287) |
| Purchases of intangible assets | *26* | **(17,347)** | (16,053) |
| Proceeds on disposals of property and equipment and intangible assets | | **517** | 158 |
| Proceeds on disposals of investment properties | | **41,400** | 11,126 |
| **Net cash used in investing activities** | | **(285,733)** | (68,583) |

| | Note | 2022<br>€000 | 2021 (restated)<br>€000 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Payment of AT1 coupon | *35* | **(27,500)** | (27,500) |
| Net (repayments)/proceeds of funding from central banks | | **(979,389)** | 2,000,000 |
| Proceeds from issue of subordinated liabilities | | **-** | 300,000 |
| Repayments of subordinated liabilities | | **(35,605)** | (231,596) |
| Proceeds from the issue of debt securities (net of costs) | | **-** | 298,505 |
| Interest on subordinated liabilities | | **(23,334)** | (33,570) |
| Interest on debt securities in issue | | **(7,858)** | - |
| Negative interest on loans and advances to banks and balances with central banks | | **(23,184)** | (31,919) |
| Principal elements of lease payments | | **(6,884)** | (7,637) |
| Dividend paid by subsidiaries to non-controlling interests | | **(3,000)** | (2,110) |
| **Net cash (used in)/from financing activities** | | **(1,106,754)** | 2,264,173 |
| **Net increase in cash and cash equivalents** | | **330,943** | 3,365,075 |
| **Cash and cash equivalents 1 January** | | **9,255,210** | 5,890,135 |
| **31 December** | *42* | **9,586,153** | 9,255,210 |

Additional information on the cash flow statement is provided in Note 41.

## 1. Corporate information

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

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law.

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

The shares of the parent company Bank of Cyprus Holdings Public Limited Company (BOCH), a company incorporated in Ireland, are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE). The Company remains a public company for the purposes of the Cyprus Income Tax Law.

The Consolidated Financial Statements are available at the Bank of Cyprus Public Company Ltd registered office (51 Stassinos Street, Ayia Paraskevi, 2002 Strovolos, Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Group/Investors Relations/Financial Results) (the Group's website).

The Annual Financial Report of Bank of Cyprus Holdings Public Limited Company Group is available on the Group's website.

*Consolidated Financial Statements*
The Consolidated Financial Statements of the Company for the year ended 31 December 2022 (the Consolidated Financial Statements) were authorised for issue by a resolution of the Board of Directors on 31 March 2023.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

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

***Statement of compliance***
The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with the requirements of the Cyprus Companies Law, Cap 113.

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

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 44.

***Comparative information***
Comparative information was restated following certain changes in the presentation of the primary statements for the year ended 31 December 2022 as described further below. The changes did not have an impact on the results for the year or equity of the Group.

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

***Reclassifications within the Consolidated Income Statement***
'Gains/(losses) on disposal/dissolution of subsidiaries and associates', previously presented within 'Net (losses)/gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates', are now presented within 'Other income'. 'Net gains/(losses) on financial instrument transactions' has been renamed to 'Net gains/(losses) on financial instruments'. 'Share of profit/(loss) from associates' previously presented separately in the Consolidated Income Statement is now presented within 'Other income' as well. 'Provisions for pending litigations, regulatory and other provisions (net of reversals)' previously presented within 'Other operating expenses' is now presented separately on the Consolidated Income Statement. As a result of these changes in the presentation of 'Other income' 'Turnover' is also restated as indicated below.

Insurance income and expense previously presented in a single line as insurance income net of claims and commissions are now presented separately. Credit losses relating to financial assets, including loans and advances to customers, is now presented in a single line. Analysis of the individual components included within each line item is presented in the respective Notes.

| | 31 December 2021 (as previously presented) | Reclassifications | 31 December 2021 (restated) |
|---|---|---|---|
| | €000 | €000 | €000 |
| Net losses on financial instrument transactions and disposal/dissolution of subsidiaries and associates | (22,047) | 22,047 | n/a |
| Net losses on financial instruments | n/a | (21,323) | (21,323) |
| Share of profit from associate | 137 | (137) | n/a |
| Other income | 14,831 | (587) | 14,244 |
| | (7,079) | - | (7,079) |
| | | | |
| Insurance income net of claims and commissions | 61,044 | (61,044) | n/a |
| Income from assets under insurance and reinsurance contracts | n/a | 205,861 | 205,861 |
| Expenses from liabilities under insurance and reinsurance contracts | n/a | (144,817) | (144,817) |
| | 61,044 | - | 61,044 |
| | | | |
| Credit losses to cover credit risk on loans and advances to customers | (40,341) | 40,341 | n/a |
| Credit losses of other financial instruments | (5,803) | 5,803 | n/a |
| Credit losses on financial assets | n/a | (46,144) | (46,144) |
| | (46,144) | - | (46,144) |
| | | | |
| Other operating expenses | 169,795 | (523) | (170,318) |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | n/a | 523 | 523 |
| | 169,795 | - | (169,795) |
| | | | |
| Turnover | 755,239 | (587) | 754,652 |

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

***Reclassifications within the Consolidated Balance Sheet***
Investments are now presented by class on the face of the consolidated balance sheet and loan stock is now presented in separate lines by type of liability issued.

| | 31 December 2021 (as previously presented) | Reclassifications | 31 December 2021 (restated) |
|---|---|---|---|
| **Assets** | **€000** | **€000** | **€000** |
| Investments | 879,005 | (879,005) | n/a |
| Investments pledged as collateral | 1,260,158 | (1,260,158) | n/a |
| Investments at FVPL | n/a | 199,194 | 199,194 |
| Investments at FVOCI | n/a | 748,695 | 748,695 |
| Investments at amortised cost | n/a | 1,191,274 | 1,191,274 |
| | 2,139,163 | - | 2,139,163 |
| | | | |
| **Liabilities** | | | |
| Loan stock | 644,928 | (644,928) | n/a |
| Debt securities in issue | n/a | 302,555 | 302,555 |
| Subordinated liabilities | n/a | 342,373 | 342,373 |
| | 644,928 | - | 644,928 |

The Consolidated Statement of Cash Flows for the year ended 31 December 2021 as well as respective notes were restated to reflect the changes in the presentation of the Consolidated Income Statement and Consolidated Balance Sheet described above.

In addition, comparative information was restated in relation to the presentation of segmental analysis as detailed in Note 6. This change led to a respective restatement of Notes 6, 23, 31, 45.2, 45.3, 45.6 and 45.10.

### 2.2 Accounting policies and changes in accounting policies and disclosures

The Consolidated Financial Statements contain a summary of the accounting policies adopted in the preparation of the Consolidated Financial Statements.

The accounting policies adopted are consistent with those of the previous year. The adoption of new and amended standards and interpretations as explained in Note 2.2.1 did not have an impact on the Group.

#### 2.2.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 and which are explained below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

*IFRS 3: Business Combinations (amendments)*
The IASB has published 'Reference to the Conceptual Framework (Amendments to IFRS 3)' with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing the accounting requirements for business combinations.

*IAS 16: Property, Plant and Equipment – Proceeds before Intended Use (amendments)*
The amendments to the standard prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

## 2. Summary of significant accounting policies (continued)

### 2.2 Accounting policies and changes in accounting policies and disclosures (continued)

#### 2.2.1 New and amended standards and interpretations (continued)

*IAS 37: Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract (amendments)*
The changes in Onerous Contracts — Cost of Fulfilling a Contract specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

*Annual Improvements to IFRS Standards 2018–2020 Cycle*
Annual Improvements to IFRS Standards 2018–2020 Cycle makes amendments to the following standards:
- i. IFRS 1 First time Adoption of International Financial Reporting Standards: the amendment permits a subsidiary that applies IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- ii. IFRS 9 Financial Instruments: the amendment clarifies which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- iii. IFRS 16 Leases: the amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- iv. IAS 41 Agriculture: the amendment removes the requirement of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique, which ensures consistency with the requirements in IFRS 13.

These amendments and the annual improvements to IFRS Standards Cycle did not have a significant impact on the Group during the year ended 31 December 2022.

### 2.3 Standards and Interpretations that are issued but not yet effective

#### 2.3.1 Standards and Interpretations issued by the IASB and adopted by the EU

*IFRS 17: Insurance Contracts*
IFRS 17 'Insurance Contracts' (IFRS 17) became effective on 1 January 2023 and applies retrospectively. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features.

IFRS 17, is a comprehensive new accounting standard for insurance contracts which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model (the general measurement model or 'GMM') for insurance contracts, supplemented by the variable fee approach ('VFA') for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach ('PAA') mainly for short duration insurance contracts. The main features of the new accounting standard for insurance contracts are the following:
- i. The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- ii. A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e. the coverage period)
- iii. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- iv. The recognition of insurance revenue and insurance service expenses in the consolidated income statement based on the concept of services provided during the period
- v. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- vi. Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of the risks arising from these contracts.

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

**2.3 Standards and Interpretations that are issued but not yet effective** (continued)

**2.3.1 Standards and Interpretations issued by the IASB and adopted by the EU** (continued)

***Insurance contracts measurement under IFRS 17***

IFRS 17 prescribes the transition approaches that must be applied. On transition to IFRS 17, entities must apply the fully retrospective approach (FRA), unless impracticable. When impracticable to apply the FRA, such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The application of each approach by the Group is described further below.

Under IFRS 17 the carrying value of insurance contracts comprises of the present value of future cash flows (separated into liability for remaining coverage and liability for incurred claims), a risk adjustment for non-financial risk and the contractual service margin, which is calculated retrospectively and represents expected future profits to be recognized over the lifetime of contracts. In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available at the reporting date.

To identify groups of insurance contracts, individual contracts subject to similar dominant risks and managed together are identified as a portfolio of insurance contracts. Each portfolio is further separated by profitability group and issue date into periodic cohorts. The fulfilment cash flows comprise:

i. the best estimates of future cash flows, including amounts expected to be collected from premiums and payouts for claims, benefits and expenses, which are projected using assumptions based on demographic and operating experience;
ii. an adjustment for the time value of money and financial risks associated with the future cash flows; and
iii. an adjustment for non-financial risk that reflects the uncertainty about the amount and timing of future cash flows.

IFRS 17 requires the use of current market values for the measurement of insurance liabilities. The shareholder's share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under the VFA. Under the GMM, the amount of CSM recognised in profit or loss for services in a period will be determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of insurance contracts based on coverage units. Services provided will be estimated using coverage units, which reflect the quantity of benefits and the coverage duration.

Changes in liability for incurred claims (LIC) and liability for remaining coverage (LRC) will be reflected in insurance revenue, insurance service expense, insurance finance income and expense (IFIE), or adjust the contractual service margin (CSM).

Under IFRS 17, operating expenses will be lower as directly attributable costs, which include both acquisition and maintenance costs, will be incorporated in actual and estimated future cash flows and recognised in the results of insurance services.

In contrast to the Group's IFRS 4 accounting where profits are recognised upfront, the CSM will be systematically recognised in revenue, as services are provided over the expected coverage period of the group of contracts without any change to the overall profit of the contracts. Losses resulting from the recognition of onerous contracts are recognised in the income statement immediately. The CSM is adjusted depending on the measurement model of the group of insurance contracts. While the general measurement model ('GMM') is the default measurement model under IFRS 17, the Group will apply also the variable fee approach ('VFA'), which is mandatory to apply for insurance contracts with direct participation features upon meeting the eligibility criteria (this will apply primarily to insurance contracts in the unit linked life portfolio). IFRS 17 provides also for a simplified approach, the Premium Allocation Approach (PAA). The PAA can be used for contracts with coverage periods of one year or less, or as an approximation to the general model and will primarily be applied by the Group to non-life insurance contracts and to non-individual life insurance contracts.

***Transition***

For all non-life groups of contracts and non-individual life insurance groups of contracts the full retrospective approach will be applied irrespective of issue date.

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

**2.3 Standards and Interpretations that are issued but not yet effective** (continued)

**2.3.1 Standards and Interpretations issued by the IASB and adopted by the EU** (continued)

The Group will apply the modified retrospective approach for groups of life insurance contracts issued between 2016 and 2021. The application of the full retrospective approach for these portfolios was determined to be impracticable for the Group, as obtaining all required historical data for its existing products from the actuarial valuation reports was not possible. Therefore, the Group will use reasonable and supportable information from its existing reporting systems, to derive the closest outcome to the full retrospective approach. For such groups of life insurance contracts, issued prior to 2016, the Group will apply the fair value approach. In applying the fair value approach, the Group will determine the CSM of the liability for remaining coverage at the transition date, as the difference between the fair value of the groups of insurance contracts and the fulfilment cash flows measured as at that date. In determining fair value, the Group will apply the requirements of IFRS 13 'Fair Value Measurement'.

***Value of in-force (VIF)***
In accordance with IFRS 17 there will be no VIF asset recognised given that the estimated future profits will now be included in the measurement of the insurance contract liability as the CSM, representing unearned profit, which will be gradually recognised over the duration of the contract. The removal of the VIF asset and the recognition of the CSM, which is a liability, will reduce equity.

***Implementation Programme status***
The Group is at an advanced stage in the implementation of IFRS 17, having put in place accounting policies, data and models, and made progress in calculating 2022 comparative data. The Group continues to make progress with required changes to models and data, and assessing the impact on the Group’s financial statements. The Group has divided its insurance products in terms of classification and measurement and aggregation into portfolios, and made estimates using the three measurement models, including a preliminary calculation of the CSM. The precise impact of adopting IFRS 17 is subject to change as:

i. The Group continues work to refine the new accounting processes and internal controls.
ii. Although dry runs were carried out, the new systems and associated controls in place have not been operational for an extensive period.
iii. The Group has not finalised the testing and assessment of controls over its new governance frameworks and IT systems.
iv. The new accounting policies, assumptions, judgements, and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

***Estimated financial impact of the adoption of IFRS 17***
On transition the following impact has been estimated:

i. the removal of value of in-force from the life insurance business (including associated deferred tax liability) of approximately €101 million as per the Group’s consolidated balance sheet as at 31 December 2022, which will reduce Group accounting equity by a respective amount (with no impact on the Group regulatory capital or tangible equity), and
ii. the remeasurement of insurance assets and liabilities and the creation of a contractual service margin (CSM) liability is estimated to result in an increase in the equity of the insurance business of the Group (predominantly relating to the life insurance business of the Group) in the range of €70-80 million as at 1 January 2022, which is a consequence primarily of life insurance products.

The estimated effect on equity of the insurance business of the Group as at 1 January 2023 (roll forwarding the impact on 2022 profits and taking into consideration other movements in reserves in 2022) is an increase in the range of €50-60 million, compared to the closing equity as at 31 December 2022 as reported under the previous accounting standard, IFRS 4.

As a result of the benefit arising from IFRS 17 on 1 January 2023 as referred to above, the life insurance subsidiary distributed €50 million as dividend to BOC PCL in February 2023, which benefited Group regulatory capital by an equivalent amount on the same date.

The adoption of IFRS 17 is expected to result in a modest annual negative impact on the contribution to profits of the Group’s insurance business in the near term.

## 2. Summary of significant accounting policies (continued)

### 2.3 Standards and Interpretations that are issued but not yet effective (continued)

#### 2.3.1 Standards and Interpretations issued by the IASB and adopted by the EU (continued)

*IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (amendments)*
The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have an impact on its results and financial position.

*IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (amendments)*
The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have a material impact on its financial results and financial position.

*IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments)*
The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

#### 2.3.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU

*Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022)*
The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. A sale and leaseback transaction involves the transfer of an asset by an entity (the seller-lessee) to another entity (the buyer-lessor) and the leaseback of the same asset by the seller-lessee. The amendment is intended to improve the requirements for sale and leaseback transactions in IFRS 16. It does not change the accounting for leases unrelated to sale and leaseback transactions. The amendment applies retrospectively to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

*IAS 1 Presentation of Financial Statements: classification of Liabilities as Current or Non-current (amendments)*
The IASB issued amendments to IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: (a) what is meant by a right to defer settlement, (b) that a right to defer must exist at the end of the reporting period and (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument. The amendments are effective for annual periods beginning on or after 1 January 2024, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

### 2.4 Basis of consolidation

The Consolidated Financial Statements comprise the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2022. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

## 2. Summary of significant accounting policies (continued)

### 2.4 Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Specifically, the Group controls an investee only if the Group has:

i. power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
ii. exposure, or rights, to variable returns from its involvement with the investee
iii. the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and in cases the Group has less than a majority of the voting rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including any contractual arrangements with the other vote holders, rights arising from other contractual arrangements, and the Group's voting and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts indicate that there are changes to any of the three elements of control.

Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the Consolidated Financial Statements from the date of acquisition or up to the date of disposal, respectively. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The non-controlling interests are presented separately in the consolidated income statement and within equity from the Company owners' equity.

All intra-group balances and transactions are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as a transaction between the owners, which affects equity. As a result, no goodwill arises nor any gain/loss is recognised in the consolidated income statement from such transactions. The foreign exchange differences which relate to the share of non-controlling interests being sold/acquired are reclassified between the foreign currency reserve and non-controlling interests.

### 2.5 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets is greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition. Acquisition related costs are expensed as incurred and included in other operating expenses.

If the business combination is achieved in stages, the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognised in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

### 2.6 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policy decisions.

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

**2.6 Investments in associates and joint ventures** (continued)

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

In the Consolidated Financial Statements, the Group's investments in associates and joint ventures are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate or a joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate or joint venture. The Group's share of the results of the associate or joint venture is included in the consolidated income statement. Losses of the associate or joint venture in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate or joint venture. Investments in associates and joint ventures are assessed at each reporting date for impairment when there is an indication that the investment may be impaired. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

Any excess of the Group's share of the net fair value of the associate's or joint venture's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired. The aggregate of the Group's share of profit or loss of an associate or a joint venture is included in 'Other Income' in the Consolidated Income Statement and represents profit or loss before tax. The associated tax charge is disclosed in income tax.

The Group recognises its share of any changes in the equity of the associate or the joint venture through the consolidated statement of changes in equity. Gains and losses resulting from transactions between the Group and the associate or the joint venture are eliminated to the extent of the Group's interest in the associate or the joint venture.

The financial statements of the associates or joint ventures are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

**2.7 Foreign currency translation**

The Consolidated Financial Statements are presented in Euro (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

**2.7.1 Transactions and balances**

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to 'Net foreign exchange gains' in the consolidated income statement, with the exception of differences on foreign currency assets/liabilities that provide a hedge against the net investments in subsidiaries and overseas branches. These differences are recognised in other comprehensive income in the 'Foreign currency translation reserve' until the disposal or liquidation of the net investment, at which time the cumulative amount is reclassified to the consolidated income statement.

## 2. Summary of significant accounting policies (continued)

### 2.7 Foreign currency translation (continued)

#### 2.7.1 Transactions and balances (continued)

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value is determined.

#### 2.7.2 Subsidiary companies and branches

At the reporting date, the assets and liabilities of subsidiaries (including special purpose entities that the Group consolidates) and branches whose functional currency is other than the Group's presentation currency are translated into the Group's presentation currency at the rate of exchange ruling at the reporting date, and their income statements are translated using the average exchange rates for the year.

Foreign exchange differences arising on translation are recognised in other comprehensive income in the 'Foreign currency translation reserve'. On disposal or liquidation of a subsidiary or branch, the cumulative amount of the foreign exchange differences relating to that particular overseas operation, is reclassified to the consolidated income statement as part of the profit/loss on disposal/dissolution of subsidiaries.

### 2.8 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group of persons that allocate resources to and assess the performance of the operating segments.

The chief operating decision-maker is the Group Executive Committee.

### 2.9 Turnover

Group turnover as presented in the Consolidated Income Statement is analysed in Note 6.

### 2.10 Revenue from contracts with customers

The Group recognises revenue when control of the promised goods or services is transferred to customers in return of an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The revenue recognition model applies the following five steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The performance obligation notion in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

*Contract balances*
A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Receivables are recorded where the Group provides services to clients, consideration is due immediately upon satisfaction of a point in time service or at the end of a prespecified period for an over the time service. It is the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). The initial recognition and subsequent measurement of such receivables is disclosed in Notes 2.15 to 2.19.

Contract liabilities relate to payments received from customers where the Group is yet to satisfy its performance obligation. Contract liabilities are recognised as revenue when the Group performs under the contract.

## 2. Summary of significant accounting policies (continued)

### 2.10 Revenue from contracts with customers (continued)

Contract assets and receivables are recorded within 'Prepayments, accrued income and other assets' and contract liabilities within 'Accruals, deferred income, other liabilities and other provisions' in the consolidated balance sheet.

#### 2.10.1 Fee and commission income

The Group earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories:

i. fees earned from services that are provided over a certain period of time, such as asset or portfolio management, custody services and certain advisory services; and
ii. fees earned from point in time services such as executing transactions and brokerage fees (e.g. securities and derivative execution and clearing).

*Over time services*
For fees earned from services that are provided over a certain period of time revenue is recognised pro-rata over the service period, provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of the Group. Costs to fulfil over time services are recorded in the consolidated income statement immediately, because such services are considered to be a series of services that are substantially the same from day to day and have the same pattern of transfer.

*Point in time services*
For fees earned from providing transaction-type services, revenue is recognised when the service has been completed, provided such fees are not subject to refund or another contingency beyond the control of the Group. Incremental costs to fulfil services provided at a point in time are typically incurred and recorded at the same time as the performance obligation is satisfied and revenue is earned, and are therefore not recognised as an asset, e.g. brokerage commissions.

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

#### 2.10.2 Dividend income

Dividend income is recognised in the consolidated income statement when the Group's right to receive payment is established i.e. upon approval by the general meeting of the shareholders.

#### 2.10.3 Rental income

Rental income from investment properties and stock of property is accounted for on a straight-line basis over the period of the lease and is recognised in the consolidated income statement in 'Other income'.

#### 2.10.4 Gains on disposal of investment property

Gains on disposal of investment property are recognised in the consolidated income statement in 'Net gains/(losses) from revaluation and disposal of investment properties' when the buyer accepts delivery and the control of the property is transferred to the buyer.

#### 2.10.5 Gains on disposal of stock of property

Gains on disposal of stock of property are recognised in the consolidated income statement when the buyer accepts delivery and the control of the property is transferred to the buyer.

## 2. Summary of significant accounting policies (continued)

### 2.11 Recognition of interest income/expense and income/expense similar to interest

The Group calculates interest income/expense by applying the effective interest rate (EIR) to the gross carrying amount of financial assets, unless the asset is credit-impaired. For financial assets and financial liabilities measured at FVPL which accrue interest, the Group follows the principles of the effective interest method with the only difference being the treatment of fees that are integral to the financial asset/financial liabilities. That is, for financial assets and financial liabilities classified at FVPL the fees are recognised as revenue or expense when the instrument is initially recognised and not as part of the EIR calculation.

When a financial asset becomes credit-impaired and is therefore classified as Stage 3, interest income is calculated by applying the EIR to the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount. In such cases, the Group unwinds the discount on the expected credit losses (ECL) through the 'Credit losses to cover credit risk on loans and advances to customers' line in the consolidated income statement.

Interest income on purchased or originated credit-impaired (POCI) financial assets is recognised using the credit adjusted effective interest rate (CAEIR) calculated at initial recognition. The CAEIR is applied on the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance.

Interest income from financial assets at amortised cost and financial assets at FVOCI is presented within the caption 'Interest income', while interest income on financial instruments at FVPL is presented within the caption 'Income similar to interest income' in the consolidated income statement. Interest expense on financial liabilities at amortised cost is presented within the caption 'Interest expense', while interest expense on financial instruments at FVPL is presented within the caption 'Expense similar to interest expense' in the consolidated income statement. All form part of the 'Net interest income'.

The Group during the year had funding from central banks with negative interest rates. The Group classifies the interest on these liabilities within interest income. Negative interest on financial liabilities is disclosed in Note 7.

The Group during the year had loans and advances to banks and central banks with negative interest rates. The Group classifies the interest on these assets within interest expense. Negative interest on financial assets is disclosed in Note 8.

**The effective interest rate method**

Interest income and expense are recognised in the consolidated income statement by applying the effective interest rate (EIR) for all financial instruments measured at amortised cost and debt instruments at FVOCI.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

The EIR, and therefore the amortised cost of the asset, is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. Fees and incremental costs that are directly attributable to loans and advances to customers are also deferred and amortised as part of interest income using the effective interest rate method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the EIR, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

The carrying amount of a financial asset or liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in 'Net gains/(losses) on financial instruments' for debt securities, or in 'Changes in expected cash flows' component of the 'Credit losses to cover credit risk on loans and advances to customers' for loans and advances to customers included within 'Credit losses on financial assets'.

## 2. Summary of significant accounting policies (continued)

### 2.12 Retirement benefits

The Group operates both defined contribution and defined benefit retirement plans.

*Defined contribution plans*
The Group recognises obligations in respect of the accounting period in the consolidated income statement. Any unpaid contributions at the reporting date are included as a liability.

*Defined benefit plans*
The cost of providing benefits for defined benefit plans is estimated separately for each plan using the Projected Unit Credit Method of actuarial valuation.

The defined benefit asset or liability comprises the present value of the defined benefit obligations (using a discount rate based on high quality corporate bonds), reduced by the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a funded plan or qualifying insurance policies. Any net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan. Fair value is based on market price information and in the case of quoted securities it is the published bid price.

The net charge to the consolidated income statement mainly comprises the service costs and the net interest on the net defined benefit asset or liability, and is presented in staff costs. Service costs comprise current service costs, past-service costs, gains and losses or curtailments and non-routine settlements. Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest), and the return on plan assets (excluding net interest), are recognised immediately on the consolidated balance sheet with a corresponding debit or credit in other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

### 2.13 Tax

*Current income tax and deferred tax*
Tax on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. Current income tax and deferred tax relating to items recognised directly in equity is recognised directly in equity.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the reporting date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associate companies and branches, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantially enacted by the reporting date.

## 2. Summary of significant accounting policies (continued)

### 2.13 Tax (continued)

The deferred tax assets arising from specific tax losses and which are subject to the Income Tax Law Amendment 28 (I) of 2019, are accounted for on the same basis as other deferred tax assets and can be converted into tax credits. These tax losses are converted into 11 equal annual instalments and each instalment could be claimed as a deductible expense in the determination of the taxable income for the relevant year. Any amount of the annual instalment not utilised is converted into a tax credit and can be utilised in the tax year following the tax year to which this tax credit relates to. Any unutilised tax credit in the relevant year is converted into a receivable from the Cyprus Government. Further details are disclosed in Note 17.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

*Indirect Tax Value Added Tax (VAT)*
Expenses and assets are recognised net of the amount of VAT, except:
- i. when the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case, the VAT suffered is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- ii. when receivables and payables are stated with the amount of VAT charged. The amount of VAT recoverable from, or payable to the tax authorities, is included as part of receivables or payables in the consolidated balance sheet.

### 2.14 Financial instruments - initial recognition

#### 2.14.1 Date of recognition

'Balances with central banks', 'Loans and advances to banks', 'Loans and advances to customers', 'Deposits by banks', 'Funding from central banks' and 'Customer deposits' are recognised when cash is received by the Group or advanced to the borrowers. All other financial assets and financial liabilities are initially recognised on the trade date. Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis.

#### 2.14.2 Initial recognition and measurement of financial instruments

The classification of financial assets on initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.15.

All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at FVPL, any directly attributable incremental costs of acquisition or issue.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described in Note 2.14.3 below.

#### 2.14.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in 'Net gains/(losses) on financial instruments' caption. In the cases, where the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

#### 2.14.4 Measurement categories of financial assets and financial liabilities

Financial assets are measured either at amortised cost, FVOCI or FVTPL.

The Group classifies and measures its derivatives and trading portfolios at FVPL. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

## 2. Summary of significant accounting policies (continued)

### 2.14 Financial instruments - initial recognition (continued)

#### 2.14.4 Measurement categories of financial assets and financial liabilities (continued)

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost or at FVPL when they are held for trading or relate to derivative instruments.

### 2.15 Classification and measurement of financial assets and financial liabilities

The classification and measurement of financial assets depends on how these are managed as part of the business models the Group operates and their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest (SPPI).

*Business model assessment*
The Group assesses the business model at a portfolio level. The portfolio level is determined at the aggregation level that reflects how the Group manages its financial assets and the business model is based on observable factors which include:

i. How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
ii. The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
iii. How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
iv. The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

*Contractual cash flows characteristics test (SPPI assessment)*
The Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding at origination (SPPI test).

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether contractual cash flows are SPPI, the Group applies judgement and considers the terms that could change the contractual cash flows so that they would not meet the condition for SPPI, and be inconsistent to a basic lending arrangement, including: (i) contingent and leverage features, (ii) interest rates which are beyond the control of the Group or variable interest rate consideration, (iii) features that could modify the time value of money, (iv) prepayment and extension options, (v) non-recourse arrangements, and (vi) convertibility features.

Where the contractual terms of a financial asset introduce a more than de-minimis exposure to risks or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVPL.

#### 2.15.1 Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in 'Net foreign exchange gains' in the case of currency derivatives and in 'Net gains/(losses) on financial instruments' in the case of all other derivatives. Interest income and expense are included in the 'Income similar to interest income' and 'Expense similar to interest expense' captions respectively in the consolidated income statement.

## 2. Summary of significant accounting policies (continued)

### 2.15 Classification and measurement of financial assets and financial liabilities (continued)

#### 2.15.1 Derivative financial instruments (continued)

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

For hybrid contracts where the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are based on the business model and SPPI assessment as described in the classification of financial assets section of Note 2.15 and applied to the entire hybrid instrument.

Derivatives embedded in financial liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains/(losses) on financial instruments' in the consolidated income statement. The host contract is accounted for in accordance with the relevant standards.

#### 2.15.2 Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they meet both of the following conditions:

i. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

This classification relates to cash and balances with central banks, loans and advances to banks, loans and advances to customers that pass the SPPI test, debt securities held under the 'Hold to collect' business model and other financial assets that pass the SPPI test.

After their initial recognition, financial instruments measured at amortised cost are measured at amortised cost using the effective interest rate method, less allowances for expected credit losses (ECL). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in 'Credit losses on financial assets'.

#### 2.15.3 Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they meet both of the following conditions:

i. The financial asset is held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

This classification relates to debt securities held under the 'Hold to collect and sell' business model that pass the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses due to changes in fair value recognised directly in other comprehensive income in the 'Net gains/(losses) on investments in debt instruments measured at FVOCI' caption. Upon derecognition of these instruments, any accumulated balances in other comprehensive income are reclassified to the consolidated income statement and reported within 'Net gains/(losses) on financial instruments' caption. The interest income, foreign exchange differences and ECL are recognised in the consolidated income statement in the respective lines in the same manner as for financial assets at amortised cost.

## 2. Summary of significant accounting policies (continued)

### 2.15 Classification and measurement of financial assets and financial liabilities (continued)

#### 2.15.4 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in 'Net gains on financial instruments' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' respectively in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

This classification relates to debt and equity instruments that have been acquired principally for the purposes of sale or repurchase in the near term.

#### 2.15.5 Financial assets or financial liabilities at FVPL

Financial assets and financial liabilities, other than those held for trading, classified in this category are those that are designated by management on initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Management only designates an instrument at FVPL at initial recognition when one of the following criteria are met:

(a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or

(b) the liabilities are part of a group of financial liabilities or financial assets and financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or

(c) the liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

Such designation is determined on an instrument-by-instrument basis.

Assets held under unit-linked insurance contracts and certain non-linked insurance contracts issued by insurance subsidiaries are designated at FVPL.

Financial assets mandatorily classified at FVPL include certain loans and advances to customers, certain investment fund holdings and other securities for which the contractual cash flows do not meet the SPPI test, or the financial assets are part of a portfolio held within a business model under which they are managed and their performance is evaluated on a fair value basis.

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in the fair value are recognised in 'Net gains/(losses) on financial instruments' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' respectively in the consolidated income statement. Dividend income is recognised in 'Other income' in the consolidated income statement when the right to receive payment has been established.

#### 2.15.6 Equity instruments measured at FVOCI

At initial recognition, the Group can make an irrevocable election to classify an investment in an equity instrument at FVOCI, when that meets the definition of Equity under IAS 32 Financial Instruments: 'Presentation', and is not held for trading. Such classification is determined on an instrument-by-instrument basis.

Fair value gains and losses on these equity instruments are recognised in OCI and are not recycled to profit or loss upon derecognition, but are transferred directly to retained earnings. Dividends on equity investments are recognised in the consolidated income statement and reported within 'Other Income' when the right to receive payment has been established. Equity instruments measured at FVOCI are not subject to an impairment assessment.

## 2. Summary of significant accounting policies (continued)

### 2.15 Classification and measurement of financial assets and financial liabilities (continued)

#### 2.15.7 Debt securities in issue and Subordinated liabilities

Debt securities in issue and Subordinated liabilities are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Group has the right to redeem the loan stock.

Interest on debt securities in issue and subordinated liabilities is included in 'Interest expense' in the consolidated income statement.

#### 2.15.8 Other financial liabilities

Other financial liabilities include 'Customer deposits', 'Deposits by banks', 'Funding from central banks' and other financial liabilities.

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers, funding from central banks and deposits by banks is at amortised cost, using the effective interest method.

### 2.16 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition apart from exceptional circumstances in which the Group changes its business model for managing financial assets and acquires, disposes of, or terminates a business line. Reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification. Any previously recognised gains, losses or interest are not restated.

Financial liabilities are never reclassified.

### 2.17 Derecognition of financial assets and financial liabilities

#### 2.17.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset have expired. The Group also derecognises a financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group transfers a financial asset if, and only if, either:

i. The Group transfers its contractual rights to receive cash flows from the financial asset; or
ii. The Group retains the rights to the cash flows, but assumes an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

A transfer only qualifies for derecognition if either:

i. The Group transfers substantially all the risks and rewards of the asset; or
ii. The Group neither transfers nor retains substantially all the risks and rewards of the asset, but it transfers control of the asset.

#### 2.17.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

## 2. Summary of significant accounting policies (continued)

### 2.18 Modification of financial assets

The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or as a response to a borrower's financial difficulties (forborne modified loans) with a view to maximise recovery.

In the event that the terms and conditions of a financial asset are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. A derecognition of a financial asset (or part of a financial asset) and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows.

Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. The Group considers a series of factors of both qualitative and quantitative nature when making such judgements on a modification in the contractual cash flows, including change in the currency, change in counterparty, introduction of substantially different terms such as addition of equity conversion features, changes in the legal framework and other.

Where the modification does not result in derecognition, the Group recognises a modification gain or loss, based on the difference between the modified cash flows discounted at the original EIR and the existing gross carrying value of the financial asset. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired, as defined in Note 2.19.2, are no longer present. A modified financial asset will transfer out of Stage 2 when it no longer meets the criteria for significant increase in credit risk such as it satisfies relative thresholds, which are based on changes in its lifetime probability of default (PD), days past due are not considered to be forborne, and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit impairment.

Where the modification results in derecognition, the new financial asset is classified at amortised cost or FVOCI and an assessment is performed on whether it should be classified as Stage 1 or POCI for ECL measurement. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

### 2.19 Impairment of financial assets

#### 2.19.1 Overview of ECL principle

The Group uses a forward looking ECL model, requiring judgement, estimates and assumptions in determining the level of ECLs. ECLs are recorded for all financial assets measured at amortised cost and FVOCI, lease receivables, loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment.

At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), unless assets are deemed as POCI whereby the ECL is measured on a lifetime basis. In the event of a significant increase in credit risk since initial recognition, impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 2.19.3.

The Group categorises its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

Stage 1: Financial assets which have not had a significant increase in credit risk since initial recognition are considered to be Stage 1 and 12-month ECL is recognised.

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime ECLs are recognised.

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Group defines credit-impaired and default) and lifetime ECLs are recognised.

## 2. Summary of significant accounting policies (continued)

### 2.19 Impairment of financial assets (continued)

#### 2.19.1 Overview of ECL principle (continued)

POCI: These are purchased or originated financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflects incurred credit losses. Changes in lifetime ECLs since initial recognition are recognised until a POCI loan is derecognised.

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet. For financial assets measured at FVOCI the carrying value is not reduced, but the accumulated amount of impairment allowance is recognised in OCI. For off-balance sheet instruments, accumulated provisions for ECL are reported in 'Accruals, deferred income, other liabilities and other provisions', except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL for the period is recognised within the consolidated income statement in 'Credit losses on financial assets' and further analysed in Note 16 in 'Credit losses to cover credit risk on loans and advances to customers' for loans and advances to customers and loan commitments and financial guarantees and in 'Credit losses of other financial instruments' for all other financial instruments.

#### 2.19.2 Credit impaired and definition of default

*Loans and advances to customers, loan commitments and financial guarantees*
The Group considers loans and advances to customers that meet the non-performing exposure (NPE) definition as per the European Banking Authority (EBA) standards to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for credit risk management purposes.

As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:
- (i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, diminished financial obligation and obligor bankruptcy.
- (iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due.
- (iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
- (v) Performing forborne exposures previously classified as NPEs that present more than 30 days past due within the probation period.

From 1 January 2021 two regulatory guidelines came into force that affect NPE classification and Days-Past-Due calculation. More specifically, these are the RTS on the Materiality Threshold of Credit Obligations Past-Due (EBA/RTS/2016/06), and the Guideline on the Application of the Definition of Default under article 178 (EBA/RTS/2016/07).

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

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

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

## 2. Summary of significant accounting policies (continued)

### 2.19 Impairment of financial assets (continued)

#### 2.19.2 Credit impaired and definition of default (continued)

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

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

The definitions of credit-impaired and default are aligned so that stage 3 represents loans which are considered defaulted or otherwise credit-impaired.

Exposures are classified as forborne when concessions are made to debtors who are facing or about to face financial difficulties and cannot meet their contractual obligations.

Non-performing forborne exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, 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. A period of one year has passed since the latest of the following events:
   a. The restructuring date
   b. The date the exposure was classified as non-performing
   c. The end of the grace period included in the restructuring arrangements.
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).

Non-performing non-forborne exposures cease to be considered as NPEs only when all of the following conditions are met:
i. At least three months have passed since the date that the conditions for which the exposure was classified as non-performing cease to be met, and within these three months there are no default triggers, and
ii. During the three month period, the behaviour of the obligor should be taken into account, i.e. there are no arrears/excesses and instalments are being repaid normally, and
iii. During the three month period, the financial situation of the obligor should be taken into account, i.e. the financial situation of the obligor has improved, and
iv. During the three month period an Unlikely-to-Pay criteria assessment is carried out and it is assessed that the obligor can fulfil their obligations without resorting to the liquidation of collateral and there are no other Unlikely-to-Pay criteria, and
v. The obligor does not have any amount past due by more than 90 days.

When an account exits Stage 3, it is transferred to Stage 2 for a probationary period of 6 months. At the end of this period, the significant increase in credit risk (SICR) trigger is activated as described in Note 2.19.3 and the loan is either transferred to Stage 1 or remains in Stage 2. The reversal of previous unrecognised interest on loans and advances to customers that no longer meet Stage 3 criteria is presented in 'Credit losses to cover credit risk on loans and advances to customers' within 'Credit losses on financial assets'.

*Debt securities, loans and advances to banks and balances with central banks*
Debt securities, loans and advances to banks and balances with central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal. Moody's ratings indicate these exposures with a grade C which is the lowest Moody's rating category. In addition, a number of other criteria are considered such as adverse changes in business, financial and economic conditions as well as external market indicators (credit spreads, credit default swap (CDS) prices) in determining whether there has been a significant deterioration in the financial position that could lead to unlikeliness to pay.

#### 2.19.3 Significant increase in credit risk (SICR)

IFRS 9 requires that in the event of a significant increase in credit risk since initial recognition, the calculation basis of the loss allowance would change from 12 month ECLs to lifetime ECLs.

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

**2.19 Impairment of financial assets** (continued)

**2.19.3 Significant increase in credit risk (SICR)** (continued)

The assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting date, by considering the change in the risk of default occurring over the remaining life of the financial instrument since initial recognition.

*Significant credit risk increase for loans and advances to customers*
Primarily, the Group uses the lifetime probability of default (PDs) as the quantitative metric in order to assess transition from Stage 1 to Stage 2 for all portfolios. The Group considers an exposure to have experienced significant increase in credit risk (SICR) by comparing the PD at the reporting date with the PD at initial recognition to compute the relative increase in regards to the corresponding threshold. The threshold has been determined by using statistical analysis on historical information of credit migration exposures on the basis of days past due, for the different segments. The Group applies the thresholds presented in the table below to each portfolio/segment, based on the following characteristics: customer type, product type and rating at origination. The threshold is then assigned to each facility according to the facility's portfolio/segment.

The SICR trigger is activated based on the comparison of the ratio of current lifetime PD to the remaining Lifetime PD at origination (PD@O) to the pre-established threshold. If the resulting ratio is higher than the pre-established threshold then deterioration is assumed to have occurred and the exposure is transferred to Stage 2.

The table below summarises the quantitative measure of the SICR trigger which varies depending on the credit quality at origination as follows, applied on 31 December 2022 and 2021:

| Segment | Rating at origination | PD Deterioration thresholds applied at 31 December 2022 | PD Deterioration thresholds applied at 31 December 2021 |
|---|---|---|---|
| Retail | 1-3 | 2 X PD@O | 2 X PD@O |
| | 4-5 | 2 X PD@O | 2 X PD@O |
| | 6-7 | 2 X PD@O | 2 X PD@O |
| SME | 1-3 | 2 X PD@O | 2 X PD@O |
| | 4-5 | 2 X PD@O | 2 X PD@O |
| | 6-7 | 2 X PD@O | 2 X PD@O |
| Corporate | 1-7 | 1-3 X PD@O | 1-3 X PD@O |

For exposures which are subject to individual impairment assessment, the following qualitative factors in addition to the ones incorporated in the PD calculation, are considered:

i. significant change in collateral value or guarantee or financial support provided by shareholders/directors,
ii. significant adverse changes in business, financial and/or economic conditions in which the borrower operates.

SICR is automatically triggered upon the granting of forbearance measures to performing borrowers. Stage 1 exposures that are classified as 'performing forborne' are automatically transferred to Stage 2.

The Group also considers, as a backstop criterion, that a significant increase in the credit risk occurs when contractual payments are more than 30 days past due (past due materiality is applied). Loans that meet this condition are classified in Stage 2. The transfer to Stage 2 does not take place in cases where certain exposures are past due for more than 30 days but certain materiality limits are not met (such as arrears up to €100 and the amount in arrears is lower than 1% of the customer's total exposure, in the case of retail exposures and arrears up to €500 and the amount in arears is lower than 1% of the customer's total exposure on all exposures other than retail). The materiality levels are set in accordance with the ECB Regulation (EU) 2018/1845.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has been transferred to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

## 2. Summary of significant accounting policies (continued)

### 2.19 Impairment of financial assets (continued)

#### 2.19.3 Significant increase in credit risk (SICR) (continued)

*Significant increase in credit risk for financial instruments other than loans and advances to customers*
Low credit risk simplification is adopted for debt securities, loans and advances to banks and balances with central banks with external credit ratings that are rated as investment grade. The assessment of low credit risk is based on both the external credit rating and the internal scoring (which considers latest available information on the instrument and issuer). The combination of the two provides an adjusted credit rating. An adjusted credit rating which remains investment grade is considered as having low credit risk.

For debt securities, loans and advances to banks and balances with central banks which are below investment grade, the low credit risk exemption does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date. Significant deterioration in credit risk is considered to have occurred when the adjusted rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investments grade to speculative and then to highly speculative) or when the PD of the exposure at the origination date compared to the PD at the reporting date has increased by a level greater than the pre-set threshold.

#### 2.19.4 Measurement of ECLs

IFRS 9 ECL reflects an unbiased, probability-weighted estimate based on either loss expectations resulting from default events either over a maximum 12-month period from the reporting date or over the remaining life of a financial instrument. The Group calculates lifetime ECLs and 12-month ECLs either on an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group calculates ECLs based on three-weighted scenarios to measure the expected cash flow shortfalls, discounted at an approximation to the EIR as calculated at initial recognition. A cash flow shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows expected to be received.

The Group calculates ECL using the following three components:
i. exposure at default (EAD),
ii. probability of default (PD), and
iii. loss given default (LGD).

*Exposure at default (EAD)*
EAD represents the expected exposure in the event of a default during the life of a financial instrument, considering expected repayments, interest payments and accruals. EAD definition is differentiated for the following categories: revolving and non-revolving exposures.

For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. For revolving exposures, the projected EAD is the carrying value plus the credit conversion factor applied on the undrawn amount. The credit conversion factor model is derived based on empirical data from 2014 onwards.

In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date.

*Probability of default (PD)*
PD represents the probability an exposure defaults and is calculated based on statistical rating models, calculated per segment and taking into consideration each individual's exposure rating as well as forward looking information based on macroeconomic inputs.

## 2. **Summary of significant accounting policies** (continued)

### 2.19 **Impairment of financial assets** (continued)

#### 2.19.4 **Measurement of ECLs** (continued)

For each exposure, lifetime PD represents the probability of default within the lifetime horizon and is based on the underlying models of marginal probability of default through the cycle (MPD TTC), MPD individual, MPD point in time, Marginal Probability of Paid-off (MPP) and the NPE overlay. In particular, the first element, MPD TTC is constructed per segment, illustrating the probability of default status depending on number of months since the origination date. The PD for each month since the origination date is calculated under the condition that exposures survived until the prior month. The MPD individual is allocated to linked individual exposures through a scaling factor constructed based on the current individual risk assessment, which is represented by the Group's PD per rating grade. MPD is adjusted to reflect the current and forward looking information based on the macroeconomic inputs. The MPP Component is the curve that shows the probability of full payment of a particular exposure based on specific period in months since the open date of the exposure. MPP is estimated for each particular segment and depends on the contractual terms of the exposure. Finally, the NPE overlay is an add-on factor that calibrates the underlying models, such that it is aligned with the NPE definition. For revolving facilities where there is no contractual survival maturity, one curve per segment is developed. The combination of these models gives rise to a PD value for each month for the lifetime of the exposure.

BOC PCL's internal rating process is summarised in Note 45.

*Loss given default (LGD)*
LGD represents an estimate of the loss if default occurs at a given time. It is usually expressed as a percentage of the EAD. Two distinct paths are taken into consideration for the LGD parameter. The first one is that of a cured facility where there is a full recovery thus no losses occur. In the second scenario, the facility remains non-performing resulting in BOC PCL proceeding with collateral liquidation actions. To this end, the LGD model considers parameters such as historical loss and/or recovery rates as well as the collateral value which is discounted to the present value determining the amount of the expected shortfall. LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segments of each asset class.

The structure of the LGD model considers the following:
  i. Curing where the probability of cure model was derived based on historical observations.
  ii. Non-curing including cash recovery or realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

A model monitoring process is followed for PD, EAD and LGD models, where model outputs are back-tested against recent data points.

*Individually assessed loans*
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by Credit Risk Management. A risk-based approach is used on the selection criteria of the individually assessed population. This involves, among others, NPE or forborne exposures above a certain amount, decrease of a certain percentage on the yearly credit turnover and decrease of a certain percentage on assigned collaterals. Also, significant Stage 1 exposures within sectors assessed by Credit Risk Management to be highly impacted by one or more factors or events (with selection criteria such as COVID-19, a global or local economic / market / regulatory / geopolitical developments, etc) are assessed for potential increase in credit risk and significant exposures that have transitioned to Stage 2 from Stage 1 are assessed for potential indications for unlikeness to pay.

The ECL for individually assessed stage 3 assets is calculated on an individual basis and all relevant considerations of the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work out process).

*Collectively assessed loans*
All customer exposures that are not individually assessed are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type. The granularity for the IFRS 9 segments is aligned with the Internal Rating Based (IRB) segmentation of the CRR.

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

**2.19 Impairment of financial assets** (continued)

**2.19.4 Measurement of ECLs** (continued)

When a financial asset has been identified as credit-impaired, ECLs are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

### 2.19.5 Scenarios and scenario weights

The Group uses reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated for three macroeconomic scenarios, baseline, adverse and favourable and the output is the weighted average ECL based on the assigned probability of each scenario (Note 45).

Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Using statistical analysis, the most significant and relevant macro-variables have been selected in order to predict more accurately the expected default rates. In regards to the LGD, the forward looking information is incorporated via the property indices for the relevant categories of properties (residential, commercial, industrial). In particular, for each collateral a forward looking projection of the realisable value is calculated before discounting back to reporting date to quantify the expected cash shortfall.

Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for a five year period, subsequently reverting to projections of long-run growth averages based on estimates of potential growth.

Regarding the scenario weights, these are determined using probability theory and severity analysis. Historical data for GDP growth (1995-2022) is analysed and a frequency distribution is produced. From that distribution probabilities are derived for all possible outcomes. Deviations of actual outcomes from the mean are calculated in terms of standard deviation ratios, and severity is higher at higher deviation ratios. The baseline scenario is defined over the range of values that correspond to 50% probability of equidistant deviations around the mean of the historical distribution. The favourable scenario is defined over the range of values to the right of the distribution that correspond to 25% probability. The adverse scenario is defined over the range of values to the left of the distribution that correspond to 25% probability. These benchmark probability points (50%, 25% and 25%), are decided using severity analysis which incorporates the average and standard deviation of the distribution.

The macroeconomic forecasts for the baseline, favourable and adverse scenarios are determined by the Economic Research Department of Bank of Cyprus. This process utilises a variety of external actual and forecast information (International Monetary Fund (IMF), European Commission and other). The corresponding weights are also determined by the Economic Research Department as described above using discretion and expert judgement where necessary. The resulting scenarios and weights are reviewed and proposed by the CRO and are submitted to the Provisions Committee for its endorsement.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date. Overlays performed are set out in Note 5.2.

### 2.19.6 ECL measurement period

The period for which expected credit losses are determined (either for 12-month or lifetime ECL) is based on the stage classification of the facility and its contractual life. For non-revolving exposures the expected lifetime is the period from the reporting date to the termination date of the facility. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

For revolving facilities, credit cards and corporate and retail overdrafts BOC PCL, has the right to cancel and/or reduce the facilities with two months' notice. BOC PCL does not limit its exposure to credit losses to the contractual notice period, but instead a behavioural maturity model is utilised where each revolving facility is assigned an expected time period to termination.

## 2. Summary of significant accounting policies (continued)

### 2.19 Impairment of financial assets (continued)

#### 2.19.7 Purchased or originated credit impaired financial assets (POCI)

POCI financial assets are recorded at fair value on initial recognition. ECLs are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses. For POCI financial assets, the Group only recognises the cumulative changes in lifetime ECL since initial recognition in the loss allowance. POCI remain a separate category until derecognition.

### 2.20 Write-offs

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such case, financial assets are written off either partially or in full. Write off refers to both contractual and non-contractual write offs. A non-contractual write-off is defined as the accounting reduction of a debt, without waiving the legal claim against the debtor. BOC PCL continues to seek recovery of the debt (e.g. restructuring arrangements, debt for assets swaps, full settlement, etc.) and the amount written off for financial assets that are still subject to enforcement activity.

Indicative conditions for writing off part or the full amount of the exposure include, but are not limited to, the following list of criteria. The criteria are applicable to both contractual and non-contractual write offs and are not by default applicable to all cases, as individual assessment and judgement is required in order to evaluate each case on its own merits.

i. Cases which are close to realisation of a security or collateral may be deemed necessary to be considered for write-off. With regards to such financial assets on which the security or collateral has not yet been realised (but may be close to agreement or other arrangement for realising), BOC PCL forms a reasonable expectation of future cash flows which would also take into account the collateral’s realisable value.
ii. When BOC PCL ceases all collection and debt enforcement actions, such remaining debt can be assessed for write-off. However, debt can be written-off even while collection and enforcement activities are proceeding.
iii. Debtor status is another indicator for assessment for write-off, for example, the debtor’s insolvency status, or whether the debtor is deceased or cannot be traced. While such loans may already be impaired, BOC PCL might be unable to form a reasonable expectation of future cash flows. Nevertheless, BOC PCL takes all the legally available steps to recover the debt, where appropriate.
iv. Customers with exposures with significant number of days past due, provided that all other efforts for restructuring are exhausted and the exposure or part of the exposure is deemed as unrecoverable / uncollectable, are also assessed for write-off.

Write-offs are subject to the Groups internal governance process for review and approval.

Write-offs and partial write-offs represent derecognition/partial derecognition events. If the amount of write-off is greater than the amount of accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Recoveries in part or in full, of amounts previously written-off are credited to the consolidated income statement in 'Credit losses on financial assets' and separately identified in Note 16 within ‘Credit losses to cover credit risk on loans and advances to customers’.

### 2.21 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised at fair value being the premium received, and presented on the consolidated balance sheet within ‘Accruals, deferred income, other liabilities and other provisions’. Subsequently, the Group’s liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in ‘Fee and commission income’ in accordance with the terms of the guarantee, and (b) the amount of ECL provision.

ECL resulting from financial guarantees is recorded in 'Credit losses on financial assets' and further identified in Note 16 in 'Credit losses on financial assets' in ‘Credit losses to cover credit risk on loans and advances to customers’. The balance of the liability for financial guarantees that remains is recognised in ‘Fee and commission income’ in the consolidated income statement when the guarantee is fulfilled, cancelled or expired.

## 2. Summary of significant accounting policies (continued)

### 2.21 Financial guarantees, letters of credit and undrawn loan commitments (continued)

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment the Group is required to provide a loan with pre-specified terms to the customer. Corresponding ECLs are presented within 'Accruals, deferred income, other liabilities and other provisions' on the Group's balance sheet except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL relating to loan commitments and letters of credit is recorded in 'Credit losses on financial assets' in the consolidated income statement.

When a customer draws on a commitment, the resulting loan is presented within (i) financial assets at fair value held for trading, consistent with the associated derivative loan commitment, (ii) financial assets at fair value not held for trading, following loan commitments designated at FVPL or (iii) loans and advances to customers, when the associated loan commitment is not fair valued through profit or loss.

### 2.22 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of either party.

### 2.23 Hedge accounting

The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The Group implements the amended IFRS 7 hedge disclosure requirements.

The Group uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks and in the case of the hedge of net investments, the Group uses also non-derivative financial liabilities. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness, both at the inception and at ongoing basis, of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship and at each hedge effectiveness assessment date, a formal assessment is undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

#### 2.23.1 Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the consolidated income statement in 'Net gains/(losses) on financial instruments'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains/(losses) on financial instruments'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to the consolidated income statement, over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

## 2. Summary of significant accounting policies (continued)

### 2.23 Hedge accounting (continued)

#### 2.23.2 Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains/(losses) on financial instruments' in the consolidated income statement.

When the hedged cash flows affect the consolidated income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the consolidated income statement.

#### 2.23.3 Hedges of net investments in foreign operations

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income, while gains or losses relating to the ineffective portion are recognised in 'Net foreign exchange gains' in the consolidated income statement.

On disposal or liquidation of an overseas branch or subsidiary, the cumulative gains or losses recognised in other comprehensive income are transferred in the consolidated income statement.

### 2.24 Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated statement of cash flows consist of cash, non-obligatory balances with central banks, loans and advances to banks and other securities that are readily convertible into known amounts of cash and are repayable within three months of the date of their acquisition.

### 2.25 Insurance business

The Group undertakes both life insurance and non-life insurance business and issues insurance and investment contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract until expiry or until all the rights and obligations under the contract have been fulfilled, even if the insurance risk has been significantly reduced during its term.

Investment contracts are those contracts that transfer financial risk. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

#### 2.25.1 Life insurance business

Premium income from unit-linked insurance contracts is recognised when received and when the units have been allocated to policyholders. Premium income from non-linked insurance contracts is recognised when due, in accordance with the terms of the relevant insurance contracts.

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Claims are recorded as an expense when they are incurred. Life insurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

## 2. Summary of significant accounting policies (continued)

### 2.25 Insurance business (continued)

#### 2.25.2 Life insurance in-force business

The Group recognises as an intangible asset the value of in-force business in respect of life insurance contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the reporting date, using appropriate economic and actuarial assumptions, similar to the calculation of the respective life insurance contract liabilities. The change in the present value is determined on a post-tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

#### 2.25.3 Non-life insurance business

Premiums are recognised in the consolidated income statement in the period in which insurance cover is provided. Unearned premiums relating to the period of risk after the reporting date are deferred to be earned in subsequent reporting periods.

An increase in liabilities arising from claims is made for the estimated cost of claims notified but not settled and claims incurred but not notified at the reporting date. The increase in liabilities for the cost of claims notified but not settled is made on a case by case basis after taking into consideration all known facts, the cost of claims that have recently been settled and assumptions regarding the future development of outstanding cases. Similar statistical techniques are used to determine the increase in liabilities for claims incurred but not notified at the reporting date.

#### 2.25.4 Investment contracts

Income from investment contracts is recognised when received and when the units have been allocated to policyholders.

#### 2.25.5 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing these tests, current best estimates of discounted future contractual cash flows and claims, expenses and investment returns are used. Any deficiency is charged to the consolidated income statement.

### 2.26 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repos) at a specific future date are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. The investments pledged as security for the repurchase agreements can be sold or repledged by the counterparty. When the counterparty has the right to sell or repledge the securities, the Group discloses those securities as 'Investments pledged as collateral'.

Securities purchased under agreements to resell (reverse repos) at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

### 2.27 Leases

*Group as a lessee*
The Group recognises right of use assets (RoU assets) and lease liabilities for contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has the right to direct the use of an identified asset throughout the period of use when it has the right to direct how and for what purpose the asset is used and has the right to change the purpose, throughout the period of use (i.e. the decision-making rights that most significantly affect the economic benefits that can be derived from the use of the underlying asset). Essentially, this right permits the Group to change its decisions throughout the contract term without approval from the lessor.

## 2. Summary of significant accounting policies (continued)

### 2.27 Leases (continued)

The lease liabilities are initially measured at the present value of the future lease payments, discounted at the lessee's incremental borrowing rate (IBR) given that the interest rate implicit in the lease cannot be readily determined. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications. Interest is computed by unwinding the present value of the lease liability and charged to the consolidated income statement within 'Interest expense'.

RoU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the RoU asset comprises the amount of the initial measurement of the lease liability, initial direct costs and the provision for restoration costs, adjusted for any related prepaid or accrued lease payments previously recognised. Depreciation is computed on a straight line basis up to the end of the lease term, and recognised in the consolidated income statement within 'Other operating expenses'. RoU assets are subject to impairment under IAS 36.

The Group elected to use the recognition exemption for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low value assets'). Payments associated with short-term leases and leases of low value assets are recognised on a straight line basis as an expense in the consolidated income statement.

Leases are monitored for significant changes that could trigger a change in the lease term and at the end of each reporting period the impact on the lease liability and the RoU asset is reassessed. Lease liability is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured, a corresponding adjustment is made to the RoU asset and/or profit or loss, as appropriate.

The lease term is calculated as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (if reasonably certain to be exercised), or any periods covered by an option to terminate the lease (if reasonably certain not to be exercised). The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised. Judgement is used in calculating the lease term, as further disclosed in Note 5.13.

Lease payments generally include fixed payments and variable payments that depend on an index (such as an inflation index).

Variable lease payments that are determined by reference to an index or a rate are taken into account in the lease liability only when there is a change in the cash flows resulting from a change in the reference index or rate. In cases where the lease contract includes a term relating to increase in the lease payment based on variable lease payments, this increase is applied on the lease when it becomes effective (when the actual cash outflow occurs). The assessment is performed at each reporting date. In cases where the lease contract includes a term with fixed increments in the lease payments, the increase is accounted for in the initial recognition of lease liability.

When a lease contains an extension or termination option that the Group considers reasonably certain to be exercised, the expected lease payments or costs of termination are included within the lease payments in determining the lease liability.

*Group as a lessor*
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in 'Other income' in the consolidated income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

## 2. Summary of significant accounting policies (continued)

### 2.28 Property and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. Investment property is property held by the Group to earn rentals and/or for capital appreciation, as further disclosed in Note 2.29. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. Otherwise, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is initially measured at cost and subsequently measured at fair value less accumulated depreciation and impairment. Valuations are carried out periodically between 3 to 5 years, (but more frequent revaluations may be performed where there are significant and volatile movement in values), by independent, qualified valuers or by the internal qualified valuers of the Group applying a valuation model recommended by the internationally accepted valuation standards. Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Gain or losses from revaluations are recognised in other comprehensive income in 'Property revaluation reserve'.

Useful life is in the range of 30 to 67 years. Freehold land is not depreciated. On disposal of freehold land and buildings, the relevant revaluation reserve balance is transferred to 'Retained earnings'.

The cost of adapting/improving leasehold property is amortised over 5 years.

Equipment is measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 5 to 10 years.

RoU assets recognised as property are measured at cost less accumulated depreciation and adjusted for certain re-measurements of lease liabilities. Depreciation of the recognised RoU assets is calculated on a straight line basis over the lease term, as further disclosed in Note 2.27.

At the reporting date, when events or changes in circumstances indicate that the carrying value may not be recovered, property and equipment is assessed for impairment. Where the recoverable amount is less than the carrying amount, property and equipment is written down to its recoverable amount.

## 2. Summary of significant accounting policies (continued)

### 2.29 Investment properties

Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and/or for capital appreciation. Additionally, leased properties which are acquired in exchange for debt and are leased out under operating leases are also usually classified as 'Investment properties'.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in 'Net gains/(losses) from revaluation and disposal of investment properties' in the consolidated income statement. Valuations are carried out by independent, qualified valuers or by the Group's internal qualified valuers.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from owner-occupied property to investment property, the Group accounts for such property in accordance with the policy described in Note 2.28 'Property and equipment' up to the date of change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

### 2.30 Stock of property

The Group in its normal course of business acquires properties in exchange of debt, which are held either directly by BOC PCL or by entities set up and controlled by the Group for the sole purpose of managing these properties with an intention to be disposed of. These properties are recognised in the Consolidated Financial Statements as 'Stock of property', reflecting the substance of these transactions.

Stock of property is initially measured at cost and subsequently measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less the estimated costs necessary to make the sale.

If net realisable value is below the cost of the stock of property, impairment is recognised in 'Impairment net of reversals on non-financial assets' in the consolidated income statement.

### 2.31 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use.

The condition for such classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Such non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' such as deferred taxes, financial instruments, investment properties measured at fair value, insurance contracts and assets and liabilities arising from employee benefits. These are measured in accordance with the Group's relevant accounting policies described elsewhere in this note.

Immediately before the initial classification as held for sale, the carrying amount of the asset (or assets and liabilities in the disposal group) is measured in accordance with applicable IFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of IFRS 5 are remeasured in accordance with applicable IFRSs before the fair value less costs to sell of the disposal group is determined.

## 2. Summary of significant accounting policies (continued)

### 2.31 Non-current assets held for sale and discontinued operations (continued)

If fair value less costs to sell of the disposal group is below the aggregate carrying amount of all of the assets and liabilities included in the disposal group, the disposal group is written down. The impairment loss is recognised in the consolidated income statement for the year. Where an impairment loss is recognised (or reversed) for a disposal group, it is allocated between the scoped-in non–current assets using the order of allocation set out in IAS 36 and no element of the adjustment is allocated to the other assets and liabilities of the disposal group. In case that the carrying amount of scoped-in non-current assets is less than the amount by which a disposal group's carrying amount exceeds its fair value less costs to sell, the excess is not recognised.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the consolidated balance sheet.

A disposal group qualifies as a discontinued operation if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale. Net profit/loss from discontinued operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax and gain or loss on measurement to fair value less cost to sell of a disposal group constituting a discontinued operation) and discontinued operations tax expense.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount, as profit or loss after tax from discontinued operations in the consolidated income statement.

### 2.32 Intangible assets

Intangible assets include among others computer software (including internally developed software) and acquired insurance portfolio customer lists. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. The Group recognises an intangible asset that arises from development or the development phase of an internal project if, and only if, it can demonstrate all of the following:

i. The technical feasibility of completing the intangible asset so that it will be available for use or sale;
ii. Its intention to complete the intangible asset and use or sell it;
iii. Its ability to use or sell the intangible asset;
iv. How the intangible asset will generate probable future economic benefits;
v. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
vi. Its ability to reliably measure the expenditure attributable to the intangible asset during its development.

The expenditures arising on research or the research phase of an internal project are expensed as incurred. Research expenditure cannot be subsequently capitalised.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 3 to 8 years for computer software, including computer software development costs. For the accounting policy of in-force life insurance business, refer to Note 2.25.2.

Intangible assets are reviewed for impairment when events relating to changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

### 2.33 Share capital

Ordinary shares are classified as equity.

## 2. Summary of significant accounting policies (continued)

### 2.33 Share capital (continued)

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

### 2.34 Share-based compensation plans

The Group recognises expenses for deferred compensation awards over the period that the employee is required to provide service to become entitled to the award. Whereby employees render services in exchange for equity instruments these arrangements are classified as equity-settled transactions.

Share-based compensation benefits are provided to employees (senior management of the Group) via the Long Term Incentive Plan, an employee share arrangement which satisfies an incentive based award through the issue of shares (equity settled).

Share-based compensation expense is measured by reference to the fair value of the equity instruments on the date of grant, with a corresponding increase in equity (other capital reserves), taking into account the terms and conditions inherent in the award, including, where relevant, dividend rights, transfer restrictions in effect beyond the vesting date, market conditions, and non-vesting conditions. For equity-settled awards, fair value is not remeasured unless the terms of the award are modified such that there is an incremental increase in value.

The total expense is recognised on a per-tranche basis, over the service period based on an estimate of the number of shares expected to vest and are adjusted to reflect the actual outcomes of service or performance conditions. At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest and recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity (other capital reserves). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

### 2.35 Other equity instruments

An instrument is an equity instrument if the instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

Other equity instruments are recorded at their residual amount and are not subject to any re-measurement after initial recognition. The cost incurred attributable to the issue of other equity instruments is deducted from retained earnings. Any subsequent write-down or write-up results to a credit or debit in retained earnings respectively. Coupon payments are recorded directly in retained earnings.

### 2.36 Treasury shares

Own equity instruments which are acquired by the Company or by any of its subsidiaries are presented as treasury shares at their acquisition cost. Treasury shares are deducted from equity until they are cancelled or reissued. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity shares.

### 2.37 Provisions for pending litigation, claims, regulatory and other matters

Provisions for pending litigation, claims, regulatory and other matters against the Group are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

## 3. Going concern

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

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

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

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

*Funding and liquidity*
The Directors and Management have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. The Group continues to hold a significant liquidity buffer at 31 December 2022 that can be easily and readily monetised in a period of stress.

## 4. Economic and geopolitical environment

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

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

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

Recent developments in financial markets in March 2023, particularly in the United States but also in Europe to a lesser extent, have been unprecedented. The failures of the two banks in the United States, the California-based Silicon Valley Bank and the New York-based Signature Bank, prompted the forceful intervention of the authorities to pre-empt the risk of financial instability in the banking system. The US authorities have also taken additional measures to prevent a broader run on bank deposits. This included invoking a systemic risk clause that allowed the US authorities to guarantee all deposits in the two banks beyond the $250,000 insured cap guarantee by the FDIC. The US Federal Reserve also established a new lending facility that provides banks access to liquidity against eligible collateral, but without the need to take a haircut.

In Switzerland, Credit Suisse was exposed to the same sort of concerns as global banks. Credit Suisse was bought by UBS, another Swiss bank, after a deal brokered by the Swiss government, the Swiss National Bank and FINMA which included liquidity assistance from the Swiss National Bank and partial losses guarantees from the government.

## 4. Economic and geopolitical environment (continued)

Following the Credit Suisse deal, the Single Resolution Board, the European Banking Authority and ECB Banking Supervision issued a statement welcoming the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability and noting that the European banking sector is resilient, with robust levels of capital and liquidity.

The Group is closely monitoring developments.

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

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

Overall, the Group's direct exposure to Russia, Ukraine and Belarus remains limited. In summary, the Group has direct lending exposure to Russia, Ukraine and Belarus of a gross book value of approximately €108 million (2021: €119 million) across its business divisions as at 31 December 2022 of which €98 million (2021: €95 million) were classified as performing and secured mainly with residential collateral located in Cyprus. The basis of the exposure is expanded compared to the country risk exposure as included in Note 45.2 of the Consolidated Financial Statements which is disclosed by reference to the country of residency/country of registration, to also include exposures for loans and advances to customers with passport of origin in these countries and/or business activities within these countries and/or where the UBO has passport of origin or residency in these countries.

Customer deposit balances with customers with UBO primary passport of origin in these countries amounts to c. 5.7% of total deposits as at 31 December 2022 as disclosed in Note 31 of the Consolidated Financial Statements.

With respect to the Group's Russian subsidiary, the net exposure is being run down and as a result the net assets included on the Group's balance sheet as at 31 December 2022 are less than €1 million (2021: €10 million).

## 5. Significant and other judgements, estimates and assumptions

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

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

The most significant judgements, estimates and assumptions relate to the classification of financial instruments and the calculation of expected credit losses (ECL), the estimation of the net realisable value of stock of property and the provisions for pending litigation, claims, regulatory and other matters, which are presented in Notes 5.1 to 5.4 below. Other judgements, estimates and assumptions are disclosed further below in Notes 5.5 to 5.13.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.1 Classification of financial assets

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

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

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

### 5.2 Calculation of expected credit losses

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

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

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

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

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

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

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

In a challenging international environment, the Cypriot economy has shown considerable resilience. Growth remained strong in 2022 averaging 5.6% which is well above the euro area average, driven almost entirely by services on the supply side. Tourist activity recovered strongly during the year with arrivals reaching 80% and receipts 90% of the levels in 2019. On the demand side, growth was driven by private consumption and investment, especially inventory accumulation, while the external sector made a negative contribution due to faster growth in imports. However, growth is expected to slow in 2023, towards 3%, according to the Ministry of Finance.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

Rising energy costs, exacerbated by the war in Ukraine, are affecting both consumers and businesses and the government has taken initial steps to mitigate the impact. Harmonised inflation in Cyprus fell from 10.6% in July 2022 to an annual average of 7.6% in December 2022.

Cyprus received a pre-financing of €157 million from the Recovery and Resilience Facility in September 2021 and the first disbursement of €85 million in December 2022. The release of the funds is conditional on the strict implementation of the reforms agreed in the National Recovery Plan. The funds will be used, among other things, to increase investment in the digital and green transition, improve the efficiency of public and local administrations, and improve the efficiency of the judicial system.

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

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

For the ECL, the Group updated its forward looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments at the national and the EU level based on developments and events as at the reporting date, i.e. 31 December 2022.

The tables below indicate the most significant macroeconomic variables as well as the scenarios used by the Group as at 31 December 2022 and 2021 respectively. The Group uses three different economic scenarios in the calculation of default probabilities and provisions. The Group has used the 30-50-20 probability structure for the adverse, base and favourable scenarios respectively compared to the 25-50-25 structure derived using the method described in Note 2.19.5. This reflects management's view of specific characteristics of the Cyprus economy that render it more vulnerable to external and internal shocks. Given the added uncertainties of the outlook for 2023 and downside risks, a global slowdown and the continuing war in Ukraine with the risk of escalation rising, as well as the tighter monetary environment in the fight against inflation, management decided to maintain an elevated weight on the adverse scenario.

In the banking sector total non-performing exposures at the end of November 2022, amounted to €2.7 billion, or 10.5% of gross loans and the coverage ratio was 52.2%. Private debt has continued to decline since mid-2012, shrinking by more than half by the end of December 2022. The decline reflects the long process of deleveraging since the start of the financial crisis and includes the sale or transfer of non-performing loans in recent years. Private debt, as measured by loans to residents excluding the government, stands at 80% of nominal GDP at the end of December 2022.

These factors and the overall risk profile discussed in the previous section, including economic structure risk given a very large external sector and high concentration to geographical areas render the economy more susceptible to external shocks and weaken its resilience. This may, in management's view, not be fully captured in the weights as calculated using the method described in Note 2.19.5. Hence management has decided to keep the weight of the adverse scenario to 30%, and correspondingly keep a reduced weight of the favourable scenario to 20%.

**5. Significant and other judgements, estimates and assumptions** (continued)

**5.2 Calculation of expected credit losses** (continued)

**31 December 2022**

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

**31 December 2021**

| Year | Scenario | Weight % | Real GDP (% change) | Unemployment rate (% of labour force) | Consumer Price Index (average % change) | RICS House Price Index (average % change) |
|---|---|---|---|---|---|---|
| 2022 | Adverse | 30.0 | -0.4 | 7.6 | 0.5 | -3.7 |
| | Baseline | 50.0 | 4.3 | 6.5 | 2.2 | 2.6 |
| | Favourable | 20.0 | 4.5 | 5.8 | 3.0 | 3.1 |
| 2023 | Adverse | 30.0 | 0.1 | 7.7 | 1.6 | -1.0 |
| | Baseline | 50.0 | 3.3 | 6.4 | 1.6 | 3.3 |
| | Favourable | 20.0 | 3.3 | 5.8 | 1.6 | 4.0 |
| 2024 | Adverse | 30.0 | 1.8 | 7.6 | 1.8 | 3.0 |
| | Baseline | 50.0 | 3.0 | 6.2 | 1.8 | 3.1 |
| | Favourable | 20.0 | 3.2 | 5.7 | 1.8 | 3.2 |
| 2025 | Adverse | 30.0 | 2.4 | 7.2 | 1.9 | 3.3 |
| | Baseline | 50.0 | 2.9 | 5.8 | 1.9 | 3.0 |
| | Favourable | 20.0 | 3.0 | 5.5 | 1.9 | 2.9 |
| 2026 | Adverse | 30.0 | 3.0 | 6.7 | 1.8 | 3.2 |
| | Baseline | 50.0 | 2.7 | 5.3 | 1.8 | 2.7 |
| | Favourable | 20.0 | 2.6 | 5.1 | 1.8 | 3.1 |

The adverse scenarios may outpace the base and favourable scenarios after the initial shock has been adjusted to and the economy starts to expand from a lower base. Thus, in the adverse scenario GDP will follow a growth trajectory that will ultimately equal and surpass the baseline before converging. Property prices are determined by multiple factors with GDP growth featuring prominently. However, the relationship between GDP growth and property prices entails a lag. Thus, property prices will initially adjust less steeply than GDP, and will start to accelerate after the recovery in GDP has been entrenched. After this point, property prices will accelerate and will match and surpass the pace in the baseline scenario, before finally converging.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

The baseline scenario was updated for the 31 December 2022 reporting, considering available information and relevant developments until then, and is described next. Economic activity continued to recover strongly in 2022 driven by a steep recovery in the tourism sector after the steep contraction of 2020, and a strong growth in private consumption, despite an aggressive monetary contraction. Real GDP increased by 5.6% in 2022 and is projected to rise by 2.8% in 2023. Consumer price inflation averaged 8.1% in 2022 and is expected to decelerate to 4.7% in 2023. The unemployment rate will continue to drop steadily in the medium term. Property prices will continue to rise modestly in 2023 as domestic demand remains relatively strong.

The adverse scenario is consistent with assumptions for a global economic slowdown driven by the war in Ukraine, elevated inflation and continued tight monetary policies. The Cypriot economy relies on services, particularly on tourism, international business, and information services with an outward orientation. This makes the Cypriot economy more exposed than other economies to the international environment and terms of trade shocks. Weaker external demand and more restricted domestic demand as a result of higher interest rates will lead to a slow-down of economic activity. The adverse scenario assumes a deeper impact of these conditions on the real economy than under the baseline scenario. Real GDP is expected to contract modestly by 2.0% in 2023 with the recovery remaining weak in the medium term. In the labour market the unemployment rate will rise only modestly and inflation while elevated, will be lower than under the baseline scenario. House prices will also contract in line with the contraction in real GDP.

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

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted, if considered necessary, by the Risk Management Division, endorsed by the Group Provisions Committee and approved by the joint Risk and Audit Committee. Qualitative adjustments or overlays were applied to the positive future property value growth to restrict the level of future property price growth to 0% for all scenarios for loans and advances to customers which are secured by property collaterals.

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

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

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

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used as the basis to estimate updated market values of properties supplemented by management judgement where necessary given the difficulty in differentiating between short-term impacts and long-term structural changes and the shortage of market evidence for comparison purposes. Assumptions were made on the basis of a macroeconomic scenario for future changes in property prices, and these are capped to zero for all scenarios, in case of any future projected increase, whereas any future projected decrease is taken into consideration.

At 31 December 2022, the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation for loans and advances to customers is approximately 32% under the baseline scenario (2021: approximately 32%) excluding those classified as held for sale.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario (2021: average of seven years), excluding those classified as held for sale.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. For specific cases judgement may also be exercised over staging during the individual assessment including cases where no specific model has been developed.

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

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

*Expected lifetime of revolving facilities*
The expected lifetime of revolving facilities is based on a behavioural maturity model for revolving facilities based on BOC PCL's available historical data, where an expected maturity for each revolving facility based on the customer's profile is assigned.

The credit conversion factor model for revolving products was calibrated in the fourth quarter of 2021, to include additional data points covering the period up to moratorium and in order to be aligned with the behavioural maturity model for revolving facilities. The impact on the ECL for the year ended 31 December 2021 was a release of ECL of €1,790 thousand. The behavioural model was updated in the second quarter of 2022 to reflect updates in customers profile whilst maintaining the same model components.

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

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

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

In the second quarter of 2022, following the agreement for the disposal of Helix 3 portfolio, the cure model was updated, assigning as maximum cure period an exposure of 3 years instead of 5 years from their default date. This had an ECL impact of €1.8 million charge for the year ended 31 December 2022.

*Overlays in the context of COVID-19 and current economic conditions*
COVID-19 related management overlays applied in 2020 and up to the first six months of 2021 were removed in the third quarter of 2021, except for the overlay for exposures in the hotel and catering sector (which applied stricter customer's credit ratings thresholds for customers in this industry sector) that was removed in the second quarter of 2022 following the introduction of the new overlays described below. The impact on the ECL, from the removal of the overlay, was a release of €143 thousand for the year ended 31 December 2022 and a transfer of €45 million loans from Stage 2 to Stage 1 during the year ended 31 December 2022.

During 2022, the Group in response to uncertainties from the consequences of the Ukrainian crisis established two new overlays in the collectively assessed population for exposures that were considered to be the most vulnerable to the implications of the crisis, to address the increased uncertainties from the geopolitical instability, trade restrictions, disruptions in the global supply chains, increases in the energy prices and their potential negative impact in the domestic cost of living. The impact on the ECL from the application of these overlays was approximately €10 million charge for the year ended 31 December 2022 and a transfer of €148 million loans from Stage 1 to Stage 2 as at 31 December 2022.

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

Horizontal probability of default (PD) overlay was introduced in the fourth quarter of 2022 to address specifically the high inflation environment affecting the economy. With this overlay the PDs have been capped to the average of 2018/2019 level, on the basis that these years are considered as closer to a business-as-usual environment in terms of default rates. The impact on the ECL from the application of this overlay was €5.5 million ECL charge for the year 2022.

The Group has exercised critical judgement on a best effort basis, to consider all reasonable and supportable information available at the time of the assessment of the ECL allowance as at 31 December 2022. The Group will continue to evaluate the ECL allowance and the related economic outlook each quarter, so that any changes arising from the uncertainty on the macroeconomic outlook and geopolitical developments, impacted by the implications of the Russian invasion of Ukraine, as well as the degree of recurrence of the COVID-19 disease due to virus mutations, are timely captured.

*Portfolio segmentation*
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed on a quarterly basis by the Risk Management Division and are adjusted or enhanced, if deemed necessary. During 2021, in response to the COVID-19 pandemic, the selection criteria were expanded to include significant Stage 1 exposures within highly impacted sectors to assess potential increase in credit risk and significant exposures which transitioned from Stage 1 to Stage 2 to assess potential indications for unlikeliness to pay. The selection criteria were further enhanced in 2022 to include significant exposures to customers with passport of origin or residency in Russia, Ukraine or Belarus and/or business activity within these countries.

Further details on impairment allowances and related credit information are set out in Note 45.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.3 Stock of property - estimation of net realisable value

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

More details on the stock of property are presented in Note 27.

### 5.4 Provisions for pending litigation, claims, regulatory and other matters

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

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 39.

### 5.5 Tax

The Group, is subject to tax in Cyprus and in the countries that it has run-down operations mainly in Greece, Russia and Romania. Estimates are required in determining the provision for taxes at the reporting date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

*Deferred tax assets*
In the absence of a specific accounting standard dedicated to the accounting of the asset that arose pursuant to amendments in the Income Tax Law effected in March 2019 which provides for the recoverability of tax assets arising from transfer of tax losses following resolution of a credit institution, within the framework of 'The Resolution of Credit and Other Institutions', to be guaranteed (Note 17), BOC PCL had exercised judgement in applying the guidance of IAS 12 in accounting for this asset item as the most relevant available standard. On the basis of this guidance, BOC PCL had determined that this asset should be accounted for on the basis of IAS 12 principles relating to deferred tax assets.

For further details on such deferred tax assets refer to Note 17.

### 5.6 Fair value of investments and derivatives

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use primarily observable market data and so the reliability of the fair value measurement is relatively high.

However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.6 Fair value of investments and derivatives (continued)

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Group uses models with only unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further details on the fair value of assets and liabilities are disclosed in Note 22.

### 5.7 Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Group's management sets these assumptions based on market expectations at the reporting date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions, a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. The expected return on plan assets is based on the composition of each fund's plan assets, estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates are derived after consultation with the Group's advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

Further details on retirement benefits are disclosed in Note 14.

### 5.8 Non-life insurance business

The Group is engaged in the provision of non-life insurance services. Risks under these policies usually cover a period of 12 months.

The liabilities for outstanding claims arising from insurance contracts issued by the Group are calculated based on case estimates using facts known at the reporting date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on experience and market trends taking into consideration claims handling costs. Other external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation, are also taken into account.

Provision is also made for claims incurred but not reported (IBNR) by the reporting date. Past experience as to the number and amount of claims reported after the reporting date is taken into consideration in estimating the IBNR provision.

Insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of certain court cases, are very difficult to quantify. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty existing at the reporting date.

Further information on non-life insurance business is disclosed in Note 12.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.9 Life insurance business

The Group is engaged in the provision of life insurance services. Whole life insurance plans (life plans) are unit-linked contracts associated with assets where the amount payable in the case of death is the greater of the sum insured and the value of investment units. Simple insurance or temporary term plans (term plans) relate to fixed term duration plans for protection against death. In case of death within the coverage period, the insured sum will be paid. Endowment insurance (investment plans/mortgage plans/horizon plans) refer to specific duration plans linked to investments, to create capital through systematic investment in association with death insurance coverage whereby the higher of the sum insured and the value of investment units is payable on death within the contract term.

Further information on life insurance business is disclosed in Note 12.

### 5.9.1 Value of in-force business

The value of the in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets.

The methodology used and the key assumptions that have been made in determining the carrying value of the in-force business asset at 31 December 2022, are set out in Note 26.

### 5.9.2 Insurance liabilities

The calculation of liabilities and the choice of assumptions regarding insurance contracts require the management of the Group to make significant estimates.

The assumptions underlying the estimates for each claim are based on past experience, internal factors and conditions, as well as external factors which reflect current market prices and other published information. The assumptions and judgements are determined at the date of valuation of liabilities and are assessed systematically so that the reliability and realistic position can be ensured.

Estimates for insurance contracts are made in two stages. Initially, at the start of the contract, the Group determines the assumptions regarding future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, at each reporting date, an actuarial valuation is performed which assesses whether liabilities are adequate according to the most recent estimates.

The assumptions with the greatest influence on the valuation of insurance liabilities are presented below:

*Mortality and morbidity rates*
Assumptions are based on standard international tables of mortality and morbidity, according to the type of contract. In addition, a study is performed based on the actual experience (actual deaths) of the insurance company for comparison purposes and if sufficient evidence exists which is statistically reliable, the results are incorporated in these tables. An increase in mortality rates will lead to a larger expected number of claims (or claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for shareholders.

*Investment return and discount rate*
The weighted average rate of return is derived based on assets that are assumed to back liabilities, consistent with the long-term investment strategy of the Group. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment returns would lead to an increase in profits for shareholders.

*Management expenses*
Assumptions are made for management fees and contract maintenance as well as for general expenses, and are based on the actual costs of the Group. An assumption is also made for the rate of increase in expenses in relation to the annual inflation rate. An increase in the level of expenses would reduce profits for shareholders.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.9 Life insurance business (continued)

#### 5.9.2 Insurance liabilities (continued)

*Lapses*
Every two years an analysis of contract termination rates is performed, using actual data from the insurance company incorporation until the immediate preceding year. Rates vary according to the type and duration of the plan. According to the current practice in Cyprus (followed under IFRS 4), no assumption is made for policy termination rates in the actuarial valuation.

Further details on insurance liabilities are disclosed in Note 32.

### 5.10 Exercise of significant influence

The Group determines whether it exercises significant influence on companies in which it has shareholdings of less than 20% if other factors exist that demonstrate significant influence. In performing this assessment it considers its representation in the Board of Directors which gives rise to voting rights of more than 20% and participation in policy-making processes, including participation in decisions about dividends and other distributions.

### 5.11 Classification of properties

The Group determines whether a property is classified as investment property or stock of property as follows:

i. Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and/or capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business. Additionally they comprise leased properties which are acquired in exchange of debt and are leased out under operating leases.
ii. Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013 (except from those that are leased out and are classified as investment properties).

### 5.12 Fair value of properties held for own use and investment properties

The Group's accounting policy for property held for own use, as well as for investment property requires that it is measured at fair value. In the case of property held for own use, valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties, the fair value is established at each reporting date. Valuations are carried out by qualified valuers by applying valuation models recommended by the internationally accepted valuation standards.

In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement and do not rely solely on historical transactional comparable information, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

Further information on inputs used is disclosed in Note 22.

### 5.13 Leases

*Incremental Borrowing Rate (IBR)*
The determination of an IBR term structure which is used in the measurement of the present value of the future lease payments as described in Note 2.27, inherently involves significant judgement. The IBR used was based on the Cyprus Government yield curve, with no further adjustment, as a fair proxy for the Group's secured borrowing cost, for a time horizon in accordance to the lease term. The sensitivity analysis on the yield curve performed by BOC PCL showed that the value of the lease liability and corresponding RoU assets is relatively insensitive to changes in the IBR.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.13 Leases (continued)

*Lease term*
In determining the lease term, management considers all facts and circumstances that could make a contract enforceable, such as the economics of the contract. The following assumptions were made for the duration of lease term depending on the contract terms:

i. For cancellable leases, an assessment was made at the initial application of the standard and subsequently updated where considered appropriate, based on the horizon used in the Group's financial plan. The current medium term financial plan assessment is for a duration of 4 years. The lease term was therefore based on an assessment of either 4 years (being the medium time horizon) or 8 years (being an assessment of a longer time horizon).
ii. For non-cancellable leases, the lease term has been assessed to be the non-cancellable period.
iii. For leases with an option for renewal, the Group's past practice regarding the period over which it has typically used properties (whether leased or owned), and its economic reasons for doing so, provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option.

*Low value assets*
The Group has exercised judgement in determining the threshold of low value assets which was set at €5,000.

Further details on the leases are disclosed in Note 43.

## 6. Segmental analysis

The Group's activities are mainly concentrated in Cyprus. Cyprus operations are organised into operating segments based on the line of business. The results of the overseas activities of the Group, namely Greece, Romania and Russia are presented within segment 'Other', given the size of these operations which are in a run-down mode and relate to legacy operations of the Group. Further, the results of certain small subsidiaries of the Group are allocated to the segments based on their key activities. In addition, as from the fourth quarter of 2022, following an internal re-organisation the Large Corporate and the International Corporate business lines, which were previously reported together as one business line namely Global Corporate have been separated and Large corporate is presented and monitored together with Corporate. Comparative information in analysis by business line, analysis of total revenue and analysis of assets and liabilities were restated to account for this change.

The operating segments are analysed below:

i. The Corporate and Large Corporate, Small and medium-sized enterprises (SME) and Retail business lines are managing loans and advances to customers. Categorisation of loans per customer group is detailed below.
ii. International Corporate is managing loans and advances to customers within the Shipping Centre, the International Corporate Lending and the International Syndicate and Project Finance.
iii. Restructuring and recoveries is the specialised unit which was set up to tackle the Group's loan portfolio quality and manages exposures to borrowers in distress situation through innovative solutions.
iv. International banking services specialises in the offering of banking services to the international corporate and non-resident individuals, particularly international business companies whose ownership and business activities lie outside Cyprus.
v. Wealth management oversees the provision of private banking and wealth management, market execution and custody along with asset management and investment banking. The business line Wealth management also includes subsidiary companies of the Group, whose activities relate to investment banking and brokerage, investment holding and management, administration and safekeeping of UCITS units.
vi. The Real Estate Management Unit (REMU) manages properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, and executes exit strategies in order to monetise these assets. The business line REMU also includes other subsidiary property companies of the Group.
vii. Treasury is responsible for liquidity management and for overseeing operations to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability.
viii. The Insurance business line is involved in both life and non-life insurance business.

**6. Segmental analysis** (continued)

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

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

i. Retail – all physical person customers, regardless of the facility amount, and legal entities with facilities from BOC PCL of up to €500 thousand, excluding business property loans and/or annual credit turnover up to €1 million.
ii. SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities from BOC PCL in the range of €500 thousand to €4 million and/or annual credit turnover of €1 million up to €10 million.
iii. Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with BOC PCL of €4 million up to €30 million and/or having a minimum annual credit turnover of €10 million up to €50 million. These companies are either local larger corporations or international companies or companies in the shipping sector (lending also includes direct lending or through syndications).

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

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

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

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

Comparative information in analysis by business line of total revenue and turnover was restated to account for the changes in the presentation of the primary statements for the year ended 31 December 2022 as described in Note 2.1.

## 6. **Segmental analysis** (continued)

### Analysis by business line

| 2022 | Corporate and Large corporate | International corporate | Small and medium-sized enterprises | Retail | Restructuring and recoveries | International banking services | Wealth management | REMU | Insurance | Treasury | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Net interest income/(expense) | 114,135 | 23,224 | 34,860 | 137,178 | 31,083 | 45,170 | 4,680 | (34,649) | (100) | 14,860 | 738 | **371,179** |
| Net fee and commission income/(expense) | 22,369 | 1,575 | 11,753 | 61,764 | 7,819 | 55,714 | 5,099 | (175) | (7,749) | 1,602 | 32,513 | **192,284** |
| Net foreign exchange gains/(losses) | 992 | 50 | 591 | 2,424 | 80 | 6,020 | 126 | - | - | 21,008 | - | **31,291** |
| Net (losses)/gains on financial instruments | (508) | - | - | - | 4,557 | - | (114) | (7) | (2,025) | 4,911 | 3,238 | **10,052** |
| Net (losses)/gains on derecognition of financial assets measured at amortised cost | 614 | 83 | (456) | 454 | 6,220 | 45 | (302) | - | - | (1,193) | (230) | **5,235** |
| Insurance income net of claims and commissions | - | - | - | - | - | - | - | - | 71,069 | - | 70 | **71,139** |
| Net gains/(losses) from revaluation and disposal of investment properties | - | - | - | - | - | - | - | 181 | (406) | - | (774) | **(999)** |
| Net gains on disposal of stock of property | - | - | - | - | - | - | - | 13,325 | - | - | 645 | **13,970** |
| Other income | (71) | - | 16 | 131 | 201 | (2) | 215 | 9,349 | 65 | 1 | 6,776 | **16,681** |
| *Total operating income* | 137,531 | 24,932 | 46,764 | 201,951 | 49,960 | 106,947 | 9,704 | (11,976) | 60,854 | 41,189 | 42,976 | **710,832** |
| Staff costs | (6,629) | (1,396) | (5,294) | (53,372) | (10,759) | (12,054) | (4,044) | (4,062) | (11,855) | (2,140) | (78,431) | **(190,036)** |
| Staff costs–voluntary exit plans and other termination benefits | (1,167) | (216) | (2,060) | (46,536) | (9,125) | (5,249) | (1,311) | (571) | (2,475) | (426) | (35,189) | **(104,325)** |
| Special levy on deposits and other levies/contributions | (3,752) | (294) | (1,938) | (23,509) | (91) | (7,864) | (1,044) | - | - | - | - | **(38,492)** |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | - | - | - | - | - | - | - | - | - | - | (11,880) | **(11,880)** |
| Other operating (expenses)/income (excluding advisory and other restructuring costs) | (34,579) | (6,618) | (15,684) | (77,242) | (22,222) | (9,938) | (2,280) | (18,105) | (11,724) | (10,132) | 55,971 | **(152,553)** |
| Other operating expenses - advisory and other restructuring costs | - | - | - | - | (2,193) | - | - | (731) | - | - | (11,212) | **(14,136)** |
| *Operating profit before credit losses and impairment* | 91,404 | 16,408 | 21,788 | 1,292 | 5,570 | 71,842 | 1,025 | (35,445) | 34,800 | 28,491 | (37,765) | **199,410** |
| Credit losses on financial assets | (7,572) | (203) | (1,024) | 230 | (48,393) | 558 | (1,535) | (3,422) | (427) | (823) | 3,082 | **(59,529)** |
| Impairment net of reversals on non-financial assets | - | - | - | - | - | - | - | (23,921) | - | - | (5,628) | **(29,549)** |
| **Profit/(loss) before tax** | 83,832 | 16,205 | 20,764 | 1,522 | (42,823) | 72,400 | (510) | (62,788) | 34,373 | 27,668 | (40,311) | **110,332** |
| Income tax | (10,479) | (2,026) | (2,596) | (190) | 5,353 | (9,050) | (107) | 7,151 | (6,806) | (3,458) | (13,263) | **(35,471)** |
| **Profit/(loss) after tax** | 73,353 | 14,179 | 18,168 | 1,332 | (37,470) | 63,350 | (617) | (55,637) | 27,567 | 24,210 | (53,574) | **74,861** |
| Non-controlling interests-profit | - | - | - | - | - | - | - | - | - | - | (2,866) | **(2,866)** |
| **Profit/(loss) after tax attributable to the owners of the Company** | **73,353** | **14,179** | **18,168** | **1,332** | **(37,470)** | **63,350** | **(617)** | **(55,637)** | **27,567** | **24,210** | **(56,440)** | **71,995** |

## 6. Segmental analysis (continued)

### Analysis by business line (continued)

| 2021 (restated) | Corporate and Large corporate | International corporate | Small and medium-sized enterprises | Retail | Restructuring and recoveries | International banking services | Wealth management | REMU | Insurance | Treasury | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Net interest income/(expense) | 90,045 | 16,120 | 29,175 | 77,110 | 48,138 | 7,823 | 747 | (3,445) | (52) | 22,273 | 8,682 | **296,616** |
| Net fee and commission income/(expense) | 22,923 | 759 | 9,465 | 45,537 | 13,041 | 54,782 | 5,592 | (179) | (7,616) | 1,632 | 25,860 | **171,796** |
| Net foreign exchange gains/(losses) | 773 | 39 | 511 | 1,872 | 77 | 5,868 | 2,814 | - | - | 4,035 | 514 | **16,503** |
| Net (losses)/gains on financial instruments | (113) | - | - | - | (17,179) | - | (338) | 6 | (541) | (6,797) | 3,639 | **(21,323)** |
| Net gains/(losses) on derecognition of financial assets measured at amortised cost | 5,986 | 485 | 1,058 | 304 | (3,872) | (104) | 2 | - | - | - | - | **3,859** |
| Insurance income net of claims and commissions | - | - | - | - | - | - | - | - | 60,871 | - | 173 | **61,044** |
| Net (losses)/gains from revaluation and disposal of investment properties | - | - | - | - | - | - | - | (2,674) | 245 | - | 601 | **(1,828)** |
| Net gains on disposal of stock of property | - | - | - | - | - | - | - | 12,422 | - | - | 874 | **13,296** |
| Other income | 10 | - | 12 | 502 | 52 | 3 | 347 | 5,874 | 63 | - | 7,381 | **14,244** |
| *Total operating income* | 119,624 | 17,403 | 40,221 | 125,325 | 40,257 | 68,372 | 9,164 | 12,004 | 52,970 | 21,143 | 47,724 | **554,207** |
| Staff costs | (6,813) | (1,480) | (6,074) | (60,775) | (14,975) | (12,731) | (4,080) | (3,972) | (11,303) | (1,526) | (78,758) | **(202,487)** |
| Staff costs–voluntary exit plans and other termination benefits | (1,094) | (111) | (1,470) | (8,464) | (1,911) | (1,724) | (79) | (483) | (1,113) | (178) | 481 | **(16,146)** |
| Special levy on deposits and other levies/contributions | (3,236) | (223) | (1,802) | (23,197) | (110) | (7,095) | (687) | - | - | - | - | **(36,350)** |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | - | - | - | - | - | - | - | - | - | - | 523 | **523** |
| Other operating (expenses)/income (excluding advisory and other restructuring costs) | (31,282) | (4,964) | (16,838) | (73,283) | (23,874) | (9,886) | (3,921) | (17,054) | (9,077) | (9,724) | 52,709 | **(147,194)** |
| Other operating expenses - advisory and other restructuring costs | - | - | - | - | (21,612) | - | - | (1,201) | - | - | (311) | **(23,124)** |
| *Operating profit before credit losses and impairment* | 77,199 | 10,625 | 14,037 | (40,394) | (22,225) | 36,936 | 397 | (10,706) | 31,477 | 9,715 | 22,368 | **129,429** |
| Credit losses on financial assets | (4,852) | (421) | 1,967 | 12,880 | (42,098) | 804 | (300) | (2,118) | (8) | 129 | (12,127) | **(46,144)** |
| Impairment net of reversals on non-financial assets | - | - | - | - | - | - | - | (47,062) | - | - | (2,394) | **(49,456)** |
| **Profit/(loss) before tax** | 72,347 | 10,204 | 16,004 | (27,514) | (64,323) | 37,740 | 97 | (59,886) | 31,469 | 9,844 | 7,847 | **33,829** |
| Income tax | (9,043) | (1,276) | (2,000) | 3,439 | 8,040 | (4,717) | (158) | 7,255 | (4,733) | (1,230) | 262 | **(4,161)** |
| **Profit/(loss) after tax** | 63,304 | 8,928 | 14,004 | (24,075) | (56,283) | 33,023 | (61) | (52,631) | 26,736 | 8,614 | 8,109 | **29,668** |
| Non-controlling interests-profit | - | - | - | - | - | - | - | - | - | - | (2,168) | **(2,168)** |
| **Profit/(loss) after tax attributable to the owners of the Company** | **63,304** | **8,928** | **14,004** | **(24,075)** | **(56,283)** | **33,023** | **(61)** | **(52,631)** | **26,736** | **8,614** | **5,941** | **27,500** |

## 6. Segmental analysis (continued)

### Analysis of total revenue

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

| | Corporate and Large corporate | International corporate | Small and medium-sized enterprises | Retail | Restructuring and recoveries | International banking services | Wealth management | REMU | Insurance | Treasury | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Revenue from third parties | 154,621 | 28,570 | 50,413 | 213,309 | 54,216 | 103,182 | 10,516 | (8,848) | 68,365 | (5,710) | 42,198 | **710,832** |
| Inter-segment (expense)/revenue | (17,090) | (3,638) | (3,649) | (11,358) | (4,256) | 3,765 | (813) | (3,128) | (7,511) | 46,899 | 779 | **-** |
| **Total revenue** | **137,531** | **24,932** | **46,764** | **201,951** | **49,960** | **106,947** | **9,703** | **(11,976)** | **60,854** | **41,189** | **42,977** | **710,832** |

| | Corporate and Large corporate | International corporate | Small and medium-sized enterprises | Retail | Restructuring and recoveries | International banking services | Wealth management | REMU | Insurance | Treasury | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021 (restated)** | | | | | | | | | | | | |
| Revenue from third parties | 136,722 | 21,041 | 43,892 | 137,484 | 44,281 | 64,635 | 9,929 | 15,132 | 59,770 | (25,756) | 47,077 | **554,207** |
| Inter-segment (expense)/revenue | (17,098) | (3,638) | (3,671) | (12,159) | (4,024) | 3,737 | (765) | (3,128) | (6,800) | 46,899 | 647 | **-** |
| **Total revenue** | **119,624** | **17,403** | **40,221** | **125,325** | **40,257** | **68,372** | **9,164** | **12,004** | **52,970** | **21,143** | **47,724** | **554,207** |

### Analysis of assets and liabilities

| | Corporate and Large corporate | International corporate | Small and medium-sized enterprises | Retail | Restructuring and recoveries | International banking services | Wealth management | REMU | Insurance | Treasury | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| **Assets** | | | | | | | | | | | | |
| Assets | 3,556,475 | 684,696 | 1,020,727 | 4,193,741 | 313,657 | 137,399 | 72,438 | 1,115,788 | 998,966 | 12,291,132 | 1,416,672 | **25,801,691** |
| Inter-segment assets | - | - | - | - | - | - | (9,313) | (35,214) | (18,807) | - | (25,938) | **(89,272)** |
| | **3,556,475** | **684,696** | **1,020,727** | **4,193,741** | **313,657** | **137,399** | **63,125** | **1,080,574** | **980,159** | **12,291,132** | **1,390,734** | **25,712,419** |
| Assets between Cyprus and overseas operations | | | | | | | | | | | | **(269,489)** |
| **Total assets** | | | | | | | | | | | | **25,442,930** |

## 6. Segmental analysis (continued)

### Analysis of assets and liabilities (continued)

| 2021 (restated) | Corporate and Large corporate €000 | International corporate €000 | Small and medium-sized enterprises €000 | Retail €000 | Restructuring and recoveries €000 | International banking services €000 | Wealth management €000 | REMU €000 | Insurance €000 | Treasury €000 | Other €000 | **Total €000** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | |
| Assets | 3,515,114 | 636,819 | 1,036,958 | 4,011,930 | 703,926 | 134,596 | 73,512 | 1,282,342 | 1,023,678 | 11,412,964 | 1,583,290 | **25,415,129** |
| Inter-segment assets | - | - | - | - | - | - | (12,036) | (16,240) | (20,367) | - | (15,227) | **(63,870)** |
| | **3,515,114** | **636,819** | **1,036,958** | **4,011,930** | **703,926** | **134,596** | **61,476** | **1,266,102** | **1,003,311** | **11,412,964** | **1,568,063** | **25,351,259** |
| Assets between Cyprus and overseas operations | | | | | | | | | | | | **(388,474)** |
| **Total assets** | | | | | | | | | | | | **24,962,785** |

| 2022 | Corporate and Large corporate €000 | International corporate €000 | Small and medium-sized enterprises €000 | Retail €000 | Restructuring and recoveries €000 | International banking services €000 | Wealth management €000 | REMU €000 | Insurance €000 | Treasury €000 | Other €000 | **Total €000** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | | | | |
| Liabilities | 1,915,300 | 139,898 | 1,007,555 | 11,333,783 | 33,806 | 3,957,050 | 628,578 | 10,049 | 784,727 | 3,183,550 | 704,092 | **23,698,388** |
| Inter-segment liabilities | - | - | - | - | - | - | - | - | - | (89,272) | - | **(89,272)** |
| | **1,915,300** | **139,898** | **1,007,555** | **11,333,783** | **33,806** | **3,957,050** | **628,578** | **10,049** | **784,727** | **3,094,278** | **704,092** | **23,609,116** |
| Liabilities between Cyprus and overseas operations | | | | | | | | | | | | **(270,614)** |
| **Total liabilities** | | | | | | | | | | | | **23,338,502** |
| **2021 (restated)** | | | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | | | |
| Liabilities | 1,602,216 | 145,934 | 866,860 | 11,051,397 | 45,994 | 3,500,183 | 335,587 | 13,359 | 826,816 | 4,161,124 | 787,671 | **23,337,141** |
| Inter-segment liabilities | - | - | - | - | - | - | - | - | - | (63,870) | - | **(63,870)** |
| | **1,602,216** | **145,934** | **866,860** | **11,051,397** | **45,994** | **3,500,183** | **335,587** | **13,359** | **826,816** | **4,097,254** | **787,671** | **23,273,271** |
| Liabilities between Cyprus and overseas operations | | | | | | | | | | | | **(389,599)** |
| **Liabilities** | | | | | | | | | | | | **22,883,672** |

Segmental analysis of customer deposits and loans and advances to customers is presented in Note 31 and Notes 45.2 and 45.6 respectively.

## 6. Segmental analysis (continued)

### Analysis of turnover

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Interest income and income similar to interest income | **451,395** | 388,568 |
| Fees and commission income | **202,583** | 180,212 |
| Net foreign exchange gains | **31,291** | 16,503 |
| Gross insurance premiums (Note 12) | **210,347** | 190,432 |
| Losses of investment properties and stock of properties | **(7,657)** | (35,307) |
| Other income | **16,681** | 14,244 |
| | **904,640** | 754,652 |

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net losses from revaluation and disposal of investment properties | **(999)** | (1,828) |
| Net gains on disposal of stock of property | **13,970** | 13,296 |
| Impairment of stock of property (Note 16) | **(20,628)** | (46,775) |
| | **(7,657)** | (35,307) |

### Analysis of turnover for the Company

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Interest income and income similar to interest income | **487,249** | 415,136 |
| Fees and commission income | **186,609** | 168,808 |
| Net foreign exchange gains | **27,280** | 15,518 |
| Gain/(losses) of investment properties and stock of properties | **4,963** | (13,967) |
| Dividend income | **21,459** | 25,205 |
| Other income | **6,164** | 4,812 |
| | **733,724** | 615,512 |

The analysis of 'Gain/ (losses) of investment properties and stock of properties' is provided in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net gains from revaluation and disposal of investment properties | **520** | 214 |
| Net gains on disposal of stock of property | **10,561** | 10,831 |
| Impairment of stock of property (Note 14 of the Company Financial Statements) | **(6,118)** | (25,012) |
| | **4,963** | (13,967) |

## 7. Interest income and income similar to interest income

*Interest income*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Financial assets at amortised cost: | | |
| - Loans and advances to customers | **336,080** | 309,299 |
| - Loans and advances to banks and central banks | **42,545** | 1,117 |
| - Debt securities | **12,113** | 7,574 |
| - Other financial assets (Note 28) | **10,889** | 5,335 |
| Debt securities at FVOCI | **9,231** | 12,528 |
| Negative interest on funding from central banks | **18,418** | 25,094 |
| | **429,276** | 360,947 |

*Income similar to interest income*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Loans and advances to customers measured at FVPL | **10,963** | 12,382 |
| Derivative financial instruments | **11,156** | 15,239 |
| | **22,119** | 27,621 |

## 8. Interest expense and expense similar to interest expense

*Interest expense*

| | **2022** | 2021 |
|---|---|---|
| Financial liabilities at amortised cost: | **€000** | €000 |
| - Customer deposits | **6,857** | 5,707 |
| - Funding from central banks and deposits by banks | **7,151** | 1,623 |
| - Debt securities in issue | **7,857** | 4,055 |
| - Subordinated liabilities | **20,213** | 23,335 |
| Negative interest on loans and advances to banks and balances with central banks | **23,184** | 31,919 |
| Interest expense on lease liabilities (Note 43) | **114** | 121 |
| | **65,376** | 66,760 |

*Expense similar to interest expense*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Derivative financial instruments | **14,840** | 25,192 |

## 9. Fee and commission income and expense

### Fee and commission income

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Credit-related fees and commissions | **47,050** | 46,445 |
| Other banking commissions | **112,562** | 96,325 |
| Fees on servicing loans disposed of under Project Helix 3/Helix 2 | **5,564** | 7,009 |
| Mutual funds and asset management fees | **3,652** | 3,896 |
| Brokerage commissions | **858** | 1,029 |
| Other commissions | **32,897** | 25,508 |
| | **202,583** | 180,212 |

Mutual funds and asset management fees relate to fiduciary and other similar activities.

Credit-related fees and commissions include commissions from credit card arrangements amounting to €26,257 thousand (2021: €24,810 thousand). Other banking commissions include commissions from payment orders amounting to €27,439 thousand (2021: €27,462 thousand) and account maintenance fees of €29,266 thousand (2021: €23,388 thousand). Liquidity fee is also included within other banking commissions and amounted to €15,663 thousand (2021: €12,906 thousand).

### Fee and commission expense

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Banking commissions | **9,984** | 8,013 |
| Mutual funds and asset management fees | **284** | 278 |
| Brokerage commissions | **31** | 125 |
| | **10,299** | 8,416 |

## 10. Net foreign exchange gains

Net foreign exchange gains comprise of the conversion of monetary assets and liabilities in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluation of foreign exchange derivatives.

## 11. Net gains/(losses) on financial instruments

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Trading portfolio: | | |
| - derivative financial instruments | **280** | 132 |
| Other investments at FVPL: | | |
| - debt securities | **7,326** | 5,534 |
| - mutual funds | **(2,139)** | (829) |
| - equity securities | **55** | 3,139 |
| Net loss on disposal of FVOCI debt securities | **(2,384)** | - |
| Net loss on early redemption of subordinated liabilities (Note 33) | **-** | (12,558) |
| Net gains/(losses) on loans and advances to customers at FVPL (Note 22) | **4,050** | (17,292) |
| Revaluation of financial instruments designated as fair value hedges: | | |
| - hedging instruments (Note 21) | **65,427** | 19,878 |
| - hedged items (Note 21) | **(62,563)** | (19,327) |
| | **10,052** | (21,323) |

## 12. Income from assets and expenses from liabilities under insurance and reinsurance contracts

*Income from assets under insurance and reinsurance contracts*

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Life insurance** | **Non-life insurance** | **Total** | Life insurance | Non-life insurance | Total |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| Gross premiums | **127,152** | **83,195** | **210,347** | 113,171 | 77,261 | 190,432 |
| Reinsurance premiums | **(18,258)** | **(42,729)** | **(60,987)** | (17,084) | (35,311) | (52,395) |
| Net premiums | **108,894** | **40,466** | **149,360** | 96,087 | 41,950 | 138,037 |
| Change in provision for unearned premiums | **-** | **851** | **851** | - | (649) | (649) |
| Total net earned premiums | **108,894** | **41,317** | **150,211** | 96,087 | 41,301 | 137,388 |
| Net investment (loss)/income and other (expense)/income | **(43,226)** | **-** | **(43,226)** | 45,766 | - | 45,766 |
| Commissions from reinsurers and other income | **7,769** | **14,041** | **21,810** | 7,784 | 11,209 | 18,993 |
| | **73,437** | **55,358** | **128,795** | 149,637 | 52,510 | 202,147 |
| Change in value of in-force business before tax (Note 26) | **(14,114)** | **-** | **(14,114)** | 3,714 | - | 3,714 |
| | **59,323** | **55,358** | **114,681** | 153,351 | 52,510 | 205,861 |

*Expenses from liabilities under insurance and reinsurance contracts*

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Life insurance** | **Non-life insurance** | **Total** | Life insurance | Non-life insurance | Total |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| Gross payments to policyholders | **(66,758)** | **(23,464)** | **(90,222)** | (51,101) | (22,766) | (73,867) |
| Reinsurers' share of payments to policyholders | **4,987** | **9,925** | **14,912** | 4,970 | 8,858 | 13,828 |
| Gross change in insurance contract liabilities | **63,131** | **(4,567)** | **58,564** | (64,375) | 1,171 | (63,204) |
| Reinsurers' share of gross change in insurance contract liabilities | **(2,405)** | **2,219** | **(186)** | 2,939 | (1,833) | 1,106 |
| Commissions paid to agents and other direct selling costs | **(20,151)** | **(6,459)** | **(26,610)** | (16,787) | (5,893) | (22,680) |
| | **(21,196)** | **(22,346)** | **(43,542)** | (124,354) | (20,463) | (144,817) |

The decrease in income from assets under insurance and reinsurance contracts during the year ended 31 December 2022 is impacted by the valuation on the unit-linked investments, which in turn has a positive impact on the respective technical reserves, whose movement is reported under expenses from liabilities under insurance and reinsurance contracts.

**12. Income from assets and expenses from liabilities under insurance and reinsurance contracts** (continued)

In addition to the above, the following income and expense items related to the insurance operations have been recognised in the consolidated income statement:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Life insurance** | **Non-life insurance** | **Total** | Life insurance | Non-life insurance | Total |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| Net (expense)/income from non-linked insurance business assets | **(83)** | **(243)** | **(326)** | (68) | 188 | 120 |
| Net gains/(losses) on financial instrument transactions and other non-linked insurance business income | **40** | **(2,833)** | **(2,793)** | 1,114 | (535) | 579 |
| Staff costs | **(5,674)** | **(8,010)** | **(13,684)** | (5,271) | (7,335) | (12,606) |
| Other operating expenses | **(6,010)** | **(4,492)** | **(10,502)** | (5,668) | (4,015) | (9,683) |

**13. Other income**

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Dividend income | **940** | 1,774 |
| (Loss)/profit on sale and write-off of property and equipment and intangible assets | **(13)** | 7 |
| Rental income from investment properties | **4,263** | 4,630 |
| Rental income from stock of property | **257** | 357 |
| Income from hotel, golf and other leisure activities | **3,559** | 2,539 |
| Share of profit from associates | **-** | 137 |
| Loss on disposal/dissolution of subsidiaries and associates | **-** | (724) |
| Other income | **7,675** | 5,524 |
| | **16,681** | 14,244 |

The income from hotel, golf and other leisure activities primarily relates to activities of subsidiaries acquired in debt satisfaction as part of loan restructuring activity.

The loss on disposal/dissolution of subsidiaries for 2021 relates mainly to the loss on the disposal of the subsidiary Global Balanced Fund of Funds Salamis Variable Capital Investment Company Plc and to the loss on the disposal of the subsidiary CLR Investment Fund Public Ltd (Note 51) and to the loss on the disposal of the associate Apollo Global Equity Fund of Funds Variable Capital Investment Company Plc (Note 52).

## 14. Staff costs

### Staff costs

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Salaries | **150,506** | 160,605 |
| Employer's contributions to state social insurance | **27,192** | 28,186 |
| Retirement benefit plan costs | **12,016** | 13,696 |
| Share-based benefits-expense | **322** | - |
| | **190,036** | 202,487 |
| Restructuring costs - voluntary exit plans and other termination benefits | **104,325** | 16,146 |
| | **294,361** | 218,633 |

During the year ended 31 December 2022, an amount of €1,719 thousand (2021: €1,235 thousand) relating to staff costs has been capitalised as internally developed computer software (Note 26).

The number of persons employed by the Group as at 31 December 2022 was 2,889 (2021: 3,438 and includes 49 persons that have accepted the voluntary exit plan (VEP) and left the Group in early 2022).

In July 2022, the Group completed a VEP through which 559 of the Group's full-time employees were approved to leave at a total cost of €101,195 thousand.

In January 2022, the Group's subsidiary company, JCC Payment Systems Ltd, proceeded with a VEP for its employees, through which 15 employees were approved to leave at a total cost of €3,130 thousand. In December 2021, the Group completed a VEP, through which 102 of the Group's full-time employees were approved to leave at a total cost of €16,146 thousand.

In July 2021, BOC PCL reached an agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement for the years 2021 and 2022. The agreement relates to certain changes including the introduction of a new pay grading structure linked to the value of each position of employment, and of a performance related pay component as part of the annual salary increase.

The following table shows the analysis per geographical location of the Group's average number of employees (full time) and analysis of the average number of employees in Cyprus per business line for 2022 and 2021.

| | **2022** | 2021 |
|---|---|---|
| Corporate and Large corporate | **60** | 92 |
| International corporate | **30** | 69 |
| Small and medium-sized enterprises | **95** | 107 |
| Retail | **1,019** | 1,091 |
| Restructuring and recoveries | **180** | 247 |
| International banking services | **218** | 243 |
| Wealth management | **36** | 37 |
| Treasury | **26** | 23 |
| REMU | **45** | 55 |
| Insurance | **201** | 203 |
| Other (primarily head office functions) | **1,299** | 1,348 |
| Total Cyprus | **3,209** | 3,515 |
| Other countries | **11** | 15 |
| | **3,220** | 3,530 |

## 14. **Staff costs** (continued)

### 14.1 Retirement benefits

**Retirement benefit plan costs**

In addition to the employer's contributions to state social insurance, the Group operates plans for the provision of additional retirement benefits as described below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Defined benefit plans | **652** | 586 |
| Defined contribution plans | **11,364** | 13,110 |
| | **12,016** | 13,696 |

*Cyprus*
The main retirement plan for the Group's permanent employees in Cyprus (86% of total Group employees) is a defined contribution plan. This plan provided for employer contributions of 9% for the period 1 January 2021 to 31 August 2021, revised to 8% from 1 September 2021 and employee contributions of 3%-10% of the employees' gross salaries for both 2022 and 2021. This plan is managed by an Administrative Committee appointed by the members.

In previous years a small number of employees who did not participate in the main retirement plan, were members of a pension scheme that was closed to new entrants and could have received part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed currently of representatives of the employer. The pension scheme is in the process of liquidation as the last member exited the plan during the year ended 31 December 2022.

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded with assets backing the obligations held in separate legal vehicles.

*Greece*
Following IFRIC's decision in May 2021 about the periods of service to which an entity attributes benefit for a particular defined benefit plan, the Group as at 31 December 2022 and 2021 does not have any retirement benefits obligation for its employees in Greece, and as a result the accumulated actuarial gains/losses attributable to these plans were derecognised since 31 December 2021. As at 31 December 2022 and 2021 the remaining retirement benefit obligation in Greece related to Group subsidiaries.

*United Kingdom*
The Group has assumed in prior years the obligation of the defined benefit plan of employees of the former subsidiary of the Group in the United Kingdom which was closed in December 2008 to future accrual of benefits for active members.

*Other countries*
The Group does not operate any retirement benefit plans in Romania and Russia.

*Analysis of the results of the actuarial valuations for the defined benefit plans*

| **Amounts recognised in the consolidated balance sheet** | **2022 €000** | 2021 |
|---|---|---|
| Liabilities (Note 34) | **3,694** | 1,673 |
| Assets (Note 28) | **(816)** | - |
| | **2,878** | 1,673 |

Two of the plans have a total funded status at a surplus of €10,739 thousand, one of which is under liquidation with funded status surplus of €1,600 thousand (2021: two plans with surplus €5,462 thousand) that is not recognised as an asset on the basis that the Group has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

**14. Staff costs** (continued)

**14.1 Retirement benefit plan costs** (continued)

The amounts recognised in the consolidated balance sheet and the movement in the net defined benefit obligation for the years ended 31 December 2022 and 2021 are presented below:

| | **Present value of obligation** | **Fair value of plan assets** | **Net amount before impact of asset ceiling** | **Impact of minimum funding requirement/ asset ceiling** | **Net defined benefit liability** |
|---|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** | **€000** |
| **1 January 2022** | 95,038 | (98,827) | **(3,789)** | 5,462 | **1,673** |
| Current service cost | 479 | - | **479** | - | **479** |
| Loss on curtailment and settlement | 219 | - | **219** | - | **219** |
| Net interest expense/(income) | 1,523 | (1,569) | **(46)** | - | **(46)** |
| **Total amount recognised in the consolidated income statement** | 2,221 | (1,569) | **652** | - | **652** |
| Remeasurements: | | | | | |
| Return on plan assets, excluding amounts included in net interest expense | - | 30,400 | **30,400** | - | **30,400** |
| Actuarial loss from changes in financial assumptions | (34,016) | - | **(34,016)** | - | **(34,016)** |
| Demographic assumptions | (721) | - | **(721)** | - | **(721)** |
| Experience adjustments | 3,008 | - | **3,008** | - | **3,008** |
| Change in asset ceiling | - | - | **-** | 5,617 | **5,617** |
| **Total amount recognised in the consolidated OCI** | (31,729) | 30,400 | **(1,329)** | 5,617 | **4,288** |
| Exchange differences | (4,077) | 4,296 | **219** | (339) | **(120)** |
| Contributions: | | | | | |
| Employer | - | (3,615) | **(3,615)** | - | **(3,615)** |
| Plan participants | 183 | (183) | **-** | - | **-** |
| Benefits paid from the plans | (6,893) | 6,893 | **-** | - | **-** |
| Benefits paid directly by the employer | - | - | **-** | - | **-** |
| **31 December 2022** | **54,743** | **(62,605)** | **(7,862)** | **10,740** | **2,878** |

## 14. **Staff costs** (continued)

### 14.1 **Retirement benefit plan costs** (continued)

| | Present value of obligation | Fair value of plan assets | Net amount before impact of asset ceiling | Impact of minimum funding requirement/ asset ceiling | Net defined benefit liability |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| **1 January 2021** | 93,012 | (86,203) | 6,809 | 2,759 | **9,568** |
| Current service cost | 533 | - | 533 | - | **533** |
| Net interest expense/(income) | 1,178 | (1,125) | 53 | - | **53** |
| **Total amount recognised in the consolidated income statement** | 1,711 | (1,125) | 586 | - | **586** |
| Remeasurements: | | | | | |
| Return on plan assets, excluding amounts included in net interest expense | - | (5,563) | (5,563) | - | **(5,563)** |
| Actuarial loss from changes in financial assumptions | (2,530) | - | (2,530) | - | **(2,530)** |
| Demographic assumptions | (170) | - | (170) | - | **(170)** |
| Experience adjustments | 409 | - | 409 | - | **409** |
| Change in asset ceiling | - | - | - | 2,703 | **2,703** |
| **Total amount recognised in the consolidated OCI** | (2,291) | (5,563) | (7,854) | 2,703 | **(5,151)** |
| Exchange differences | 5,291 | (4,993) | 298 | - | **298** |
| Contributions: | | | | | |
| Employer | - | (3,585) | (3,585) | - | **(3,585)** |
| Plan participants | 185 | (185) | - | - | **-** |
| Benefits paid from the plans | (2,827) | 2,827 | - | - | **-** |
| Benefits paid directly by the employer | (43) | - | (43) | - | **(43)** |
| **31 December 2021** | **95,038** | **(98,827)** | **(3,789)** | **5,462** | **1,673** |

**14. Staff costs** (continued)

**14.1 Retirement benefit plan costs** (continued)

The actual return on plan assets for year 2022 was a loss of €28,831 thousand (2021: gain of €6,688 thousand) mainly due to the reduction in bond and equity prices during the year.

The assets of funded plans are generally held in separately administered entities, either as specific assets or as a proportion of a general fund, or as insurance contracts and are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Group is exposed to a number of risks as outlined below:

| | |
|---|---|
| Interest rate risk | The Group is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities. |
| Changes in bond yields | A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings. |
| Inflation risk | The Group faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases) exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increases with increasing inflation) could be used to better match the expected increases in liabilities. |
| Asset volatility | The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, a deficit will be created. |

The major categories of plan assets as a percentage of total plan assets are as follows:

| | **2022** | 2021 |
|---|---|---|
| Equity securities | **13%** | 20% |
| Debt securities | **57%** | 48% |
| Loans and advances to banks | **13%** | 15% |
| Funds | **17%** | 17% |
| | **100%** | 100% |

The assets held by the funded plans include equity securities issued by the Company, the fair value of which as at 31 December 2022 is €95 thousand (2021: €57 thousand).

The Group expects to make additional contributions to defined benefit plans of €3,606 thousand during 2023.

At the end of the reporting period, the average duration of the defined benefit obligations was 14 years (2021: 18 years).

## 14. **Staff costs** (continued)

### 14.1 **Retirement benefit plan costs** (continued)

*Principal actuarial assumptions used in the actuarial valuations*
The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Group during 2022 and 2021 are set out below:

| **2022** | **Cyprus** | **Greece** | **UK** |
|---|---|---|---|
| Discount rate | **3.85%** | **n/a** | **5.00%** |
| Inflation rate | **2.50%** | **n/a** | **3.10%** |
| Future salary increases | **2.50%** | **n/a** | **n/a** |
| Rate of pension increase | **n/a** | **n/a** | **2.90%** |
| Life expectancy for pensioners at age 60 | **23.5 years M**<br>**29.6 years F** | **n/a** | **n/a** |
| Life expectancy for pensioners at age 65 | **n/a** | **n/a** | **23.0 years M**<br>**24.7 years F** |
| | | | |
| **2021** | | | |
| Discount rate | 0.88% | n/a | 1.80% |
| Inflation rate | 1.50% | n/a | 3.25% |
| Future salary increases | 2.00% | n/a | n/a |
| Rate of pension increase | 2.00% | n/a | 3.10% |
| Life expectancy for pensioners at age 60 | 23.5 years M<br>29.6 years F | n/a | n/a |
| Life expectancy for pensioners at age 65 | n/a | n/a | 22.9 years M<br>24.3 years F |

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date of high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone which comprise 18% of the defined benefit obligations, the Group adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Group's plan in the UK which comprises 82% of the defined benefit obligations, the Group adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

The impact of significant assumptions' fluctuations on the defined benefit obligation as at 31 December 2022 and 2021 is presented below:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| **Variable** | **Change +0.5%** | **Change -0.5%** | Change +0.5% | Change -0.5% |
| Discount rate | **-6.5%** | **6.9%** | -8.7% | 9.4% |
| Inflation growth rate | **3.8%** | **-4.2%** | 5.5% | -5.4% |
| Salary growth rate | **1.1%** | **-1.1%** | 1.0% | -0.9% |
| Pension growth rate | **0.1%** | **-0.1%** | 0.1% | -0.1% |
| | **Plus 1 year** | **Minus 1 year** | Plus 1 year | Minus 1 year |
| Life expectancy | **3.6%** | **-3.6%** | 2.9% | -2.9% |

## 14. **Staff costs** (continued)

### 14.1 **Retirement benefit plan costs** (continued)

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the consolidated balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

### 14.2 Share-based compensation plan

*Long-Term Incentive Plan*
During the Annual General Meeting of the shareholders of the Company which took place on 20 May 2022, a special resolution was approved for the establishment and implementation of the share based Long-Term Incentive Plan of Bank of Cyprus Holdings Public Limited Company (the '2022 LTIP').

The 2022 LTIP is a share-based compensation plan for executive directors and senior management of the Group. The 2022 LTIP provides for an award in the form of ordinary shares of BOCH based on certain non-market performance and service vesting conditions. Performance will be measured over a 3-year period. The performance conditions are set by the Human Resources & Remuneration Committee (HRRC) each year and may be differentiated to reflect the Group's strategic targets and employee's personal performance, at HRRC's discretion. Performance will be assessed against an evaluation scorecard consistent with the Group's Medium Term Strategic Targets containing both financial and non-financial objectives, and including targets in the areas of: (i) Profitability; (ii) Asset quality; (iii) Capital adequacy; (iv) Risk control & compliance; and (v) Environmental, Social and Governance ('ESG'). The awards ordinarily vest in six tranches, with 40% vesting in the year following the year the performance period ends and the remaining 60%, vesting in tranches (12%), on each of the first, second, third, fourth and fifth anniversary date of the first vesting date. For any award to vest the employee must be in the employment of the Group up until the date of the vesting of such an award. Under certain circumstances the HRRC has the discretion to determine whether the award will lapse and/or the extent to which the award will be vested.

The maximum number of shares that may be issued pursuant to the 2022 LTIP until the tenth anniversary of the relevant resolution shall not exceed 5% of the issued ordinary share capital of BOCH, as at the date of the resolution (being 22,309,996 ordinary shares of €0.10 each), as adjusted for any issuance or cancellation of shares subsequently to the date of the resolution (excluding any issuances of shares pursuant to the 2022 LTIP).

The pre-existing Share Option Plan, which was operating at the level of BOCH, has been superseded by the 2022 LTIP.

On 22 December 2022 (grant date) 819,860 share awards under the 2022 LTIP were granted by BOCH to 22 eligible employees (2021: nil) comprising the Extended Executive Committee of the Group. The awards are subject to a three year performance period (2022-2024) (with all performance conditions being non-market performance conditions) and thereon vest in six tranches, with the first tranche vesting in the year following the year the performance period ends and the last tranche vesting on the fifth anniversary of the first vesting date. Vesting is also subject to service conditions. Awards are subject to potential forfeiture under certain leaver scenarios.

The following table presents movements in outstanding share-based awards during 2022 and 2021.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number of shares** | **Weighted average grant date fair value** | Number of shares | Weighted average grant date fair value |
| | | **€** | | € |
| As at 1 January | **-** | | - | |
| Granted during the year | **819,860** | **1.69** | - | - |
| Vested during the year | **-** | **-** | - | - |
| Forfeited during the year | **-** | **-** | - | - |
| **31 December** | **819,860** | | - | |

## 14. **Staff costs** (continued)

### 14.2 **Share-based compensation plan** (continued)

**Assumptions as at 31 December 2022**
The fair value calculations at 31 December 2022 for grants made in the year are calculated, using Black-Scholes model. As the award is a share award (and does not contain any market based performance conditions) the fair value is based on the share price at the date of the grant.

## 15. Other operating expenses

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Repairs and maintenance expenses | **34,840** | 33,083 |
| Other property-related costs | **14,325** | 12,448 |
| Consultancy, legal and other professional services fees | **18,844** | 13,797 |
| Insurance | **6,613** | 6,160 |
| Advertising and marketing | **10,097** | 9,836 |
| Depreciation of property and equipment (Note 25) | **15,650** | 16,313 |
| Amortisation of intangible assets (Note 26) | **18,553** | 18,615 |
| Communication expenses | **6,535** | 7,254 |
| Printing and stationery | **1,698** | 1,851 |
| Cash transfer expenses | **2,953** | 2,664 |
| Other operating expenses | **22,445** | 25,173 |
| | **152,553** | 147,194 |
| Advisory and other restructuring costs | **14,136** | 23,124 |
| | **166,689** | 170,318 |

Advisory and other restructuring costs comprise mainly fees to external advisors in relation to: (i) the transformation program and other strategic projects of the Group, and (ii) the disposal of operations and non-core assets.

During the year ended 31 December 2022, the Group recognised €193 thousand relating to rent expense for short-term leases, included within 'Other property-related costs' (2021: €255 thousand) and €6,767 thousand relating to the depreciation of right-of-use assets, included within 'Depreciation of property and equipment' (2021: €7,520 thousand) (Note 43).

Within total other operating expenses an amount of €820 thousand (2021: €734 thousand) relates to investment property that generated rental income.

Special levy on deposits and other levies/contributions as presented in the consolidated income statement are set out below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Special levy on deposits of credit institutions in Cyprus | **21,499** | 19,936 |
| Single Resolution Fund contribution | **5,779** | 5,209 |
| Guarantee fee on annual deferred tax credit (Note 17) | **4,795** | 5,300 |
| Contribution to Deposit Guarantee Fund | **6,419** | 5,905 |
| | **38,492** | 36,350 |

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

## 15. Other operating expenses (continued)

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

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Group, for audit and other professional services provided both in Cyprus and overseas, as follows:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Audit of the individual and the Group financial statements | **2,163** | 1,628 |
| Other assurance services | **504** | 659 |
| Tax compliance and advisory services | **282** | 298 |
| Other non-audit services | **199** | 78 |
| | **3,148** | 2,663 |

Other assurance services include fees relating to the interim review.

## 16. Credit losses on financial instruments and impairment net of reversals of non-financial assets

| | **2022** | 2021 |
|---|---|---|
| Credit losses on financial instruments | **€000** | €000 |
| *Credit losses to cover credit risk on loans and advances to customers* | | |
| Impairment net of reversals on loans and advances to customers (Note 45.6) | **64,997** | 33,956 |
| Recoveries of loans and advances to customers previously written off | **(11,919)** | (11,907) |
| Changes in expected cash flows | **7,948** | 15,951 |
| Financial guarantees and commitments (Notes 45.5.1 and 45.5.2) | **(4,516)** | 2,341 |
| | **56,510** | 40,341 |
| *Credit losses of other financial instruments* | | |
| Amortised cost debt securities (Note 20) | **701** | (32) |
| FVOCI debt securities (Note 20) | **(23)** | (91) |
| Loans and advances to banks (Note 19) | **(52)** | (5) |
| Balances with central banks (Note 19) | **193** | - |
| Other financial assets (Note 28) | **2,200** | 5,931 |
| | **3,019** | 5,803 |
| | **59,529** | 46,144 |

| | | |
|---|---|---|
| *Impairment net of reversals on non-financial assets* | | |
| Stock of property (Note 27) | **20,628** | 46,775 |
| Other non-financial assets | **8,921** | 2,681 |
| | **29,549** | 49,456 |

## 17. Income tax

| | 2022 | 2021 |
|---|---|---|
| | **€000** | €000 |
| Current tax: | | |
| - Cyprus | **35,736** | 5,202 |
| Cyprus special defence contribution | **144** | 163 |
| Deferred tax (credit)/charge | **(2,318)** | 641 |
| Prior years' tax adjustments | **1,713** | (1,882) |
| Other tax charges | **196** | 37 |
| | **35,471** | 4,161 |

The reconciliation between the income tax expense and the profit before tax as estimated using the current income tax rates is set out below:

| | 2022 | 2021 |
|---|---|---|
| | **€000** | €000 |
| Profit before tax | **110,332** | 33,829 |
| Income tax at the normal tax rates in Cyprus | **13,792** | 4,229 |
| Income tax effect of: | | |
| - expenses not deductible for income tax purposes | **34,973** | 14,324 |
| - income not subject to income tax | **(13,029)** | (13,351) |
| - deferred tax (credit)/charge | **(2,318)** | 641 |
| | **33,418** | 5,843 |
| Cyprus special defence contribution | **144** | 163 |
| Prior years' tax adjustments | **1,713** | (1,882) |
| Other tax charges | **196** | 37 |
| | **35,471** | 4,161 |

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2021: 12.5%).

For life insurance business there is a minimum income tax charge of 1.5% on gross premiums. Special defence contribution is payable on rental income at a rate of 3% (2021: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2021: 30%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2022 were: Greece 22% (2021: 22%), Romania 16% (2021: 16%) and Russia 20% (2021: 20%).

The Group is subject to income taxes in the various jurisdictions in which it operates and the calculation of the Group's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

## 17. **Income tax** (continued)

### Deferred tax

The net deferred tax assets arise from:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Difference between capital allowances and depreciation | **(10,528)** | (10,990) |
| Property revaluation | **(13,338)** | (13,582) |
| Investment revaluation and stock of property | **(2,847)** | (2,847) |
| Unutilised income tax losses carried forward (guaranteed deferred tax asset) | **227,455** | 265,364 |
| Value of in-force life insurance business | **(14,472)** | (16,236) |
| Other temporary differences (net) | **(2,571)** | (2,663) |
| **Net deferred tax assets** | **183,699** | 219,046 |

The net deferred tax assets comprise:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Deferred tax assets | **227,521** | 265,481 |
| Deferred tax liabilities | **(43,822)** | (46,435) |
| **Net deferred tax assets** | **183,699** | 219,046 |

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

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| 1 January | **219,046** | 295,378 |
| Deferred tax recognised in the consolidated income statement | **2,318** | (641) |
| Deferred tax recognised in the consolidated statement of comprehensive income | **244** | 127 |
| Transfer to current tax receivables following conversion into tax credit | **(37,909)** | (75,818) |
| **31 December** | **183,699** | 219,046 |

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

The analysis of the net deferred tax (credit)/charge recognised in the consolidated income statement is set out below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Difference between capital allowances and depreciation | **(462)** | 170 |
| Value of in-force life insurance business | **(1,764)** | 464 |
| Other temporary differences | **(92)** | 7 |
| | **(2,318)** | 641 |

The analysis of the net deferred tax recognised in other comprehensive income in the consolidated statement of comprehensive income is set out below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Timing differences on property revaluation-income | **244** | 127 |

**17. Income tax** (continued)

During the year ended 31 December 2021 an amount of €479 thousand that relates to the balance of deferred tax arising from property revaluation, has been transferred from the deferred tax liability - property revaluation to the deferred tax liability - other temporary differences following the respective transfer of the related property from the category 'Property and equipment' (Note 25) to 'Investment properties' (Note 22).

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

The main provisions of the legislation are set out below:

i. The amendments allow for the conversion of specific tax losses into tax credits.
ii. The Law applies only to tax losses transferred following resolution of a credit institution within the framework of 'The Resolution of Credit and Other Institutions Law'.
iii. The losses are capped to the amount of Deferred Tax Assets (DTA) recognised on the balance sheet of the audited financial statements of the acquiring credit institution in the year of acquisition. Tax losses in excess of the capped amount could only be utilised in cases involving transfers of tax losses in relation to tax reorganisations, completed before 1 October 2019. Post 1 October 2019, any excess tax losses expired.
iv. Acquired tax losses are converted into 15 equal annual instalments or into 11 equal annual instalments for acquired losses from credit institutions which were in resolution pre 31 December 2017.
v. Each annual instalment can be claimed as a deductible expense in the determination of the taxable income for the relevant year. Annual instalments are capped and cannot create additional losses for the credit institution.
vi. Any amount of annual instalment not utilised is converted into a tax credit (with reference to the applicable tax rate enacted at the time of the conversion) and it can be utilised in the tax year following the tax year to which this tax credit relates to. The tax credit can be used against a tax liability (Corporate Income Tax Law, VAT Law or Bank levy Law) of the credit institution or any other eligible subsidiary for group relief. Any unutilised tax credit in the relevant year is converted into a receivable from the Cyprus Government.
vii. In financial years where a credit institution has accounting losses the amount of the annual instalment is recalculated. Upon recalculation, the mechanics outlined above remain unchanged.
viii. In case a credit institution in scope goes into liquidation the total amount of unused annual instalments are converted to tax credits and immediately become a receivable from the Government.
ix. A guarantee fee on annual tax credit is payable annually by the credit institution to the Government.

In response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government has proceeded with the adoption of modifications to the Law, including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already provided for in the Law, to maintain the conversion of such DTAs into tax credits. The relevant amendments were voted by the Cyprus Parliament in May 2022 and have become effective since. As prescribed by the amendments in the Law, the annual fee is to be determined by the Cyprus Government on an annual basis, providing however, for such fee charge to be set at a minimum fee of 1.5% of the annual instalment and can range up to a maximum amount of €10,000 thousand per year, and also allowing for a higher amount to be charged in the year the amendments are effective (i.e. in 2022).

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

As a result of the above Law, the Group has DTA amounting to €227,455 thousand as at 31 December 2022 (2021: €265,364 thousand) that meet the requirements under this Law, the recovery of which is guaranteed. On an annual basis an amount is converted to annual tax credit and is reclassified from the DTA to current tax receivables.

The DTA subject to the Law is accounted for on the same basis, as described in Note 2.13.

**17. Income tax** (continued)

The Group in prior years, in anticipation of modifications in the Law, acknowledged that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The Group estimates that such fees could range up to €5,300 thousand per year (for each tax year in scope i.e. since 2018) although the Group understands that such fee may fluctuate annually as to be determined by the Ministry of Finance. An amount of €4,795 thousand that relates to the tax credit of year 2022 (2021: €5,300 thousand) was recorded during the year ended 31 December 2022. In the third quarter of 2022, BOC PCL has been levied an amount for years 2018-2021 within the provisions level maintained.

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

| | Total income tax losses | Income tax losses for which a deferred tax asset was recognised | Income tax losses for which no deferred tax asset was recognised |
|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** |
| Expiring within 5 years | **44,960** | **-** | **44,960** |
| Utilisation in annual instalments up to 2028 | **1,819,636** | **1,819,636** | **-** |
| | **1,864,596** | **1,819,636** | **44,960** |
| | | | |
| **2021** | | | |
| Expiring within 5 years | 251,448 | - | 251,448 |
| Utilisation in annual instalments up to 2028 | 2,122,909 | 2,122,909 | - |
| | 2,374,357 | 2,122,909 | 251,448 |

**18. Earnings per share**

| **Basic and diluted profit per share attributable to the owners of the Company** | **2022** | 2021 |
|---|---|---|
| Profit for the year attributable to the owners of the Company (€ thousand) | **71,995** | 27,500 |
| Weighted average number of shares in issue during the year, excluding treasury shares (thousand) | **9,597,945** | 9,597,945 |
| Basic and diluted profit per share (€ cent) | **0.8** | 0.3 |

**19. Cash, balances with central banks and loans and advances to banks**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Cash | **91,717** | 142,915 |
| Balances with central banks | **9,475,734** | 9,087,968 |
| Allowance for expected credit losses (Note 16) | **(193)** | - |
| | **9,567,258** | 9,230,883 |

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Loans and advances to banks | **204,832** | 291,705 |
| Allowance for expected credit losses (Note 16) | **(21)** | (73) |
| | **204,811** | 291,632 |

## 19. Cash, balances with central banks and loans and advances to banks (continued)

An analysis of the movement of the gross carrying amount of balances with central banks is presented in the table below:

| Gross carrying amount | **2022** **€000** | 2021 €000 |
|---|---|---|
| 1 January | **9,087,968** | 5,513,629 |
| Net increase | **387,766** | 3,574,339 |
| **31 December** | **9,475,734** | 9,087,968 |

Balances with central banks are classified as Stage 1.

The ECL charge (Note 16) and ECL allowance on balances with central banks for the year ended and as at 31 December 2022 amounted to €193 thousand (2021: nil).

An analysis of the movement of the gross carrying amount and ECL of loans and advances to banks is presented in the table below:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **ECL** | Gross carrying amount | ECL |
| | **€000** | **€000** | €000 | €000 |
| 1 January | **291,705** | **(73)** | 402,862 | (78) |
| Net decrease | **(85,970)** | **-** | (109,485) | - |
| Changes to models and inputs used for ECL calculation (Note 16) | **-** | **52** | - | 5 |
| Foreign exchange adjustments | **(903)** | **-** | (1,672) | - |
| **31 December** | **204,832** | **(21)** | 291,705 | (73) |

All loans and advances to banks are classified as Stage 1.

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2022 which amount to €114,537 thousand (2021: €166,987 thousand) (Note 42).

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 45.11.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

## 20. Investments

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

| | **2022** **€000** | 2021 €000 |
|---|---|---|
| Investments at FVPL | **190,209** | 199,194 |
| Investments at FVOCI | **467,375** | 748,695 |
| Investments at amortised cost | **2,046,119** | 1,191,274 |
| | **2,703,703** | 2,139,163 |

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

| Investments pledged as collateral | **2022** **€000** | 2021 €000 |
|---|---|---|
| Investments at FVOCI | **60,974** | 488,806 |
| Investments at amortised cost | **223,369** | 771,352 |
| | **284,343** | 1,260,158 |

**20. Investments** (continued)

Investments pledged as collateral as at 31 December 2022 and 2021 related to debt securities collaterised mainly for the additional amounts borrowed from the ECB Targeted Longer-Term Refinancing Operations (TLTRO III) (Note 30). Encumbered assets are disclosed in Note 47.

The maximum exposure to credit risk for debt securities is disclosed in Note 45.1 and the debt securities price risk sensitivity analysis is disclosed in Note 46.

The credit rating analysis of investments is disclosed in Note 45.11.

**Investments at fair value through profit or loss**

| | **Investments mandatorily measured at FVPL** | |
|---|---|---|
| | **2022** | 2021 |
| | **€000** | €000 |
| Debt and other non-equity securities | **8,968** | 6,034 |
| Equity securities | **6,961** | 9,053 |
| Mutual funds | **174,280** | 184,107 |
| | **190,209** | 199,194 |

The debt securities which are measured at FVPL are mandatorily classified because they failed to meet the SPPI Criteria.

**Investments at FVOCI**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Debt securities | **453,775** | 733,080 |
| Equity securities (including preference shares) | **13,600** | 15,615 |
| | **467,375** | 748,695 |

**Investments at amortised cost**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Debt securities | **2,046,119** | 1,191,274 |

## 20. **Investments** (continued)

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

*Equity securities*

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

| | **FVPL** | **FVOCI** | **Total** |
|---|---|---|---|
| **2021** | €000 | €000 | **€000** |
| Listed on the Cyprus Stock Exchange | - | 1,752 | **1,752** |
| Listed on other stock exchanges | 9,053 | 76 | **9,129** |
| Unlisted | - | 13,787 | **13,787** |
| | **9,053** | **15,615** | **24,668** |

The Group irrevocably made the election to classify its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value amounts to €13,600 thousand at 31 December 2022 and is equal to their fair value (2021: €15,615 thousand).

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

Dividend income amounting to €940 thousand has been received and recognised for 2022 in other income (2021: €1,774 thousand) (Note 13).

During the years ended 31 December 2022 and 31 December 2021 no material equity investments measured at FVOCI have been disposed of. During the year there were transfers from OCI to retained earnings of €2,931 thousand (2021: nil) relating to investments disposed in prior years.

*Mutual funds*

| **Mutual funds** | **FVPL** |
|---|---|
| **2022** | €000 |
| Listed on other stock exchanges | 77,782 |
| Unlisted | 96,498 |
| | **174,280** |

| | **FVPL** |
|---|---|
| **2021** | €000 |
| Listed on other stock exchanges | 88,963 |
| Unlisted | 95,144 |
| | **184,107** |

The majority of the unlisted mutual funds relate to investments whose underlying assets are listed on stock exchanges and are therefore presented in Level 2 hierarchy in Note 22.

## 20. **Investments** (continued)

*Debt securities and other non-equity securities*

| **Analysis by issuer type** | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | **€000** |
| Cyprus government | - | 310,791 | 521,322 | **832,113** |
| Other governments | - | 22,616 | 402,844 | **425,460** |
| Financial institutions | - | 115,497 | 722,522 | **838,019** |
| Other financial corporations | 8,968 | - | 36,547 | **45,515** |
| Supranational organisations | - | - | 293,834 | **293,834** |
| Other non-financial corporations | - | 4,871 | 69,050 | **73,921** |
| | **8,968** | **453,775** | **2,046,119** | **2,508,862** |

| | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| **2021** | €000 | €000 | €000 | **€000** |
| Cyprus government | - | 408,708 | 326,953 | 735,661 |
| Other governments | - | 87,295 | 223,813 | 311,108 |
| Financial institutions | 500 | 230,513 | 397,775 | 628,788 |
| Other financial corporations | 5,534 | - | 33,507 | 39,041 |
| Supranational organisations | - | - | 209,226 | 209,226 |
| Other non-financial corporations | - | 6,564 | - | 6,564 |
| | **6,034** | **733,080** | **1,191,274** | **1,930,388** |

| **Geographic dispersion by country of issuer** | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | **€000** |
| Cyprus | - | 310,791 | 531,611 | **842,402** |
| Greece | - | 14,987 | 43,276 | **58,263** |
| Germany | - | - | 121,132 | **121,132** |
| France | - | 58,134 | 162,405 | **220,539** |
| Other European Union countries | - | 33,298 | 370,728 | **404,026** |
| United Kingdom | - | - | 23,128 | **23,128** |
| USA and Canada | 8,968 | 8,974 | 238,802 | **256,744** |
| Other countries | - | 27,591 | 261,203 | **288,794** |
| Supranational organisations | - | - | 293,834 | **293,834** |
| | **8,968** | **453,775** | **2,046,119** | **2,508,862** |

| | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| **2021** | €000 | €000 | €000 | **€000** |
| Cyprus | 500 | 408,708 | 326,953 | 736,161 |
| Germany | - | 3,598 | 67,747 | 71,345 |
| France | - | 66,116 | 100,388 | 166,504 |
| Other European Union countries | - | 139,940 | 239,781 | 379,721 |
| United Kingdom | - | - | 25,043 | 25,043 |
| USA and Canada | 5,534 | 77,831 | 111,961 | 195,326 |
| Other countries | - | 36,887 | 110,175 | 147,062 |
| Supranational organisations | - | - | 209,226 | 209,226 |
| | **6,034** | **733,080** | **1,191,274** | **1,930,388** |

**20. Investments** (continued)

| **Listing analysis** | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | **€000** |
| Listed on the Cyprus Stock Exchange | - | - | 29,849 | **29,849** |
| Listed on other stock exchanges | - | 453,775 | 2,016,270 | **2,470,045** |
| Unlisted | 8,968 | - | - | **8,968** |
| | **8,968** | **453,775** | **2,046,119** | **2,508,862** |

| | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| **2021** | €000 | €000 | €000 | **€000** |
| Listed on the Cyprus Stock Exchange | - | - | 48,463 | **48,463** |
| Listed on other stock exchanges | - | 733,080 | 1,142,811 | **1,875,891** |
| Unlisted | 6,034 | - | - | **6,034** |
| | **6,034** | **733,080** | **1,191,274** | **1,930,388** |

The Group uses fair value hedging to manage the interest rate risk in relation to its FVOCI bonds (Note 21).

An analysis of the movement of debt securities at FVOCI before ECL and the changes on the ECL are presented in the table below:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Gross debt securities** | **ECL** | Gross debt securities | ECL |
| | **€000** | **€000** | €000 | €000 |
| 1 January | **733,766** | **(686)** | 657,633 | (777) |
| New assets acquired in the year | **27,972** | **-** | 116,290 | - |
| Assets derecognised and redeemed in the year (Note 16) | **(244,486)** | **35** | (34,083) | 6 |
| Interest accrued and amortisation | **(6,119)** | **-** | (2,448) | - |
| Foreign exchange adjustments | **11,190** | **-** | 14,852 | - |
| Changes to models and inputs used for ECL calculations (Note 16) | **-** | **(12)** | - | 85 |
| Changes in fair value | **(67,885)** | **-** | (18,478) | - |
| **31 December** | **454,438** | **(663)** | 733,766 | (686) |

All debt securities measured at FVOCI are classified as Stage 1.

An analysis of changes in the gross carrying amount (before ECL) of the debt securities at amortised cost by staging is presented in the table below:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Total** | Stage 1 | Stage 2 | Total |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| 1 January | **1,143,533** | **48,559** | **1,192,092** | 984,739 | 48,981 | 1,033,720 |
| New assets acquired in the year | **1,073,058** | **-** | **1,073,058** | 503,089 | - | 503,089 |
| Assets derecognised and redeemed in the year | **(164,874)** | **(47,100)** | **(211,974)** | (348,151) | - | (348,151) |
| Fair value due to hedging relationship | **(10,527)** | **(197)** | **(10,724)** | (2,156) | (392) | (2,548) |
| Interest accrued and amortisation | **(179)** | **(1,262)** | **(1,441)** | (4,744) | (30) | (4,774) |
| Foreign exchange adjustments | **6,627** | **-** | **6,627** | 10,756 | - | 10,756 |
| **31 December** | **2,047,638** | **-** | **2,047,638** | 1,143,533 | 48,559 | 1,192,092 |

## 20. Investments (continued)

An analysis of changes on the respective ECL is presented in the table below:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Total** | Stage 1 | Stage 2 | Total |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| 1 January | **(722)** | **(96)** | **(818)** | (545) | (305) | (850) |
| Assets derecognised or redeemed (Note 16) | **11** | **96** | **107** | 155 | - | 155 |
| Changes to models and inputs used for ECL calculation (Note 16) | **(808)** | **-** | **(808)** | (332) | 209 | (123) |
| **31 December** | **(1,519)** | **-** | **(1,519)** | (722) | (96) | (818) |

There were no reclassifications of investments during the year ended 31 December 2022 and 2021.

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €8,694 thousand at 31 December 2022 (2021: €11,066 thousand). The fair value loss that would have been recognised in the consolidated income statement during the year ended 31 December 2022 if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €1,432 thousand (2021: loss of €97 thousand). The effective interest rate of these instruments is 1.6%-5.0% (2021: 1.6%-5.0%) per annum and the respective interest income during the year ended 31 December 2022 amounts to €252 thousand (2021: €280 thousand).

## 21. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | | **Fair value** | | | Fair value | |
| | **Contract amount** | **Assets** | **Liabilities** | Contract amount | Assets | Liabilities |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| **Trading derivatives** | | | | | | |
| Forward exchange rate contracts | **13,239** | **103** | **123** | 11,344 | 81 | 55 |
| Currency swaps | **1,248,522** | **283** | **10,316** | 991,117 | 4,388 | 1,342 |
| Interest rate swaps | **14,806** | **437** | **420** | 21,690 | 86 | 61 |
| Currency options | **352** | **287** | **65** | 83 | 62 | 21 |
| Interest rate caps/floors | **171,864** | **3,094** | **3,094** | 518,950 | 223 | 218 |
| | **1,448,783** | **4,204** | **14,018** | 1,543,184 | 4,840 | 1,697 |
| **Derivatives qualifying for hedge accounting** | | | | | | |
| Fair value hedges - interest rate swaps | **803,513** | **43,939** | **2,151** | 700,835 | 1,813 | 30,025 |
| Net investments - forward exchange rate contracts and currency swaps | **3,059** | **10** | **-** | 107,193 | - | 730 |
| | **806,572** | **43,949** | **2,151** | 808,028 | 1,813 | 30,755 |
| **Total** | **2,255,355** | **48,153** | **16,169** | 2,351,212 | 6,653 | 32,452 |

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates and foreign currency exchange rates. Derivatives are also sold to customers as risk management products.

Credit risk for derivatives arises from the possibility of the counterparty's failure to meet the terms of any contract. In the case of derivatives, credit losses are a significantly smaller amount compared to the derivatives' notional amount. In order to manage credit risk, the Group sets derivative limits based on the creditworthiness of the involved counterparties and uses credit mitigation techniques such as netting and collateralisation.

**21. Derivative financial instruments** (continued)

Interest rate risk is explained in Note 46. The interest rate risk is managed through the use of own balance sheet solutions such as plain vanilla interest rate swaps and interest rate options. In fair value hedges of interest rate risk, the Group converts fixed rate assets/liabilities to floating. In cash flow hedging of interest rate risk, the Group converts floating rate assets/liabilities to fixed.

Currency risk is explained in Note 46. In order to eliminate the risk, the Group hedges its open position by entering into foreign exchange deals such as: foreign exchange spot, foreign exchange forwards, foreign exchange swaps or foreign exchange options. The foreign currency risk mainly arises from customer-driven transactions on deposits and loans and advances.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

Interest rate caps/floors protect the buyer from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates and foreign currency exchange rates in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

**Hedge accounting**

The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates, foreign currency exchange rates or other risks) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the consolidated income statement.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

*Fair value hedges*
The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate debt securities measured at FVOCI.

**21. Derivative financial instruments** (continued)

*Hedges of net investments*

The Group's consolidated balance sheet is impacted by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and other foreign operations. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and other foreign operations and by forward exchange rate contracts.

As at 31 December 2022, forward exchange rate contracts amounting to €3,059 thousand (2021: forward exchange rate contracts and currency swaps amounting to €107,193 thousand) have been designated as hedging instruments and have given rise to a loss of €4,079 thousand (2021: gain of €7,797 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and other foreign operations.

| | **Gains/(losses) attributable to hedged risk** | | **Hedged in-effectiveness** |
|---|---|---|---|
| **2022** | **Hedged items** | **Hedging instrument** | |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** |
| Fair value hedges | | | |
| -interest rate swaps | (62,563) | 65,427 | (2,864) |
| Net investments | | | |
| -forward exchange rate contracts | 4,079 | (4,079) | - |
| **Total** | **(58,484)** | **61,348** | **(2,864)** |

| | **Gains/(losses) attributable to hedged risk** | | **Hedged in-effectiveness** |
|---|---|---|---|
| **2021** | **Hedged items** | **Hedging instrument** | |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** |
| Fair value hedges | | | |
| -interest rate swaps | (19,327) | 19,878 | (551) |
| Net investments | | | |
| -forward exchange rate contracts and currency swaps | (8,422) | 8,422 | - |
| **Total** | **(27,749)** | **28,300** | **(551)** |

**21. Derivative financial instruments** (continued)

The accumulated fair value adjustment arising from the hedging relationships is presented in the table below:

| | **Carrying amount of hedged items** | | **Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item** | |
|---|---|---|---|---|
| **2022** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** | **€000** |
| Fair value hedges - interest rate swaps | | | | |
| Interest rate swaps | | | | |
| *-debt securities* | 468,396 | - | (66,555) | - |
| *-debt securities in issue* | - | 297,636 | - | 4,853 |
| Net investments - forward and swap exchange rate contracts | | | | |
| *Net assets* | 3,059 | - | 10 | - |
| **Total** | **471,455** | **297,636** | **(66,545)** | **4,853** |

| | **Carrying amount of hedged items** | | **Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item** | |
|---|---|---|---|---|
| **2021** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** | **€000** |
| Fair value hedges - interest rate swaps | | | | |
| Interest rate swaps | | | | |
| *-debt securities* | 746,432 | - | 729 | - |
| Net investments - forward and swap exchange rate contracts | | | | |
| *Net assets* | - | 107,193 | - | (730) |
| **Total** | **746,432** | **107,193** | **729** | **(730)** |

For assets hedged using fair value hedges the fixed rate is 1.84% and the floating rate is 1.20% as at 31 December 2022 (2021: 2.38% and 0.94% respectively). For liabilities hedged using fair value hedges, the average fixed rate is 0.62% and the average floating rate is 0.25% respectively as at 31 December 2022. There were no liabilities hedged using fair value hedges as at 31 December 2021.

**21. Derivative financial instruments** (continued)

The maturity of the Group's contract amount of the derivatives is presented in the table below:

| 2022 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | Total contract amount €000 |
|---|---|---|---|---|---|---|
| **Trading derivatives** | | | | | | |
| Forward exchange rate contracts | 1,649 | 9,138 | 2,452 | - | - | **13,239** |
| Currency swaps | 1,109,302 | 139,220 | - | - | - | **1,248,522** |
| Interest rate swaps | - | - | - | 14,806 | - | **14,806** |
| Currency options | 352 | - | - | - | - | **352** |
| Interest rate caps/floors | - | - | - | 154,173 | 17,691 | **171,864** |
| | **1,111,303** | **148,358** | **2,452** | **168,979** | **17,691** | **1,448,783** |
| **Derivatives qualifying for hedge accounting** | | | | | | |
| Fair value hedges - interest rate swaps | 23,416 | 17,000 | 42,200 | 486,397 | 234,500 | **803,513** |
| Net investments - forward exchange rate contracts | 3,059 | - | - | - | - | **3,059** |
| | **26,475** | **17,000** | **42,200** | **486,397** | **234,500** | **806,572** |
| **Total** | **1,137,778** | **165,358** | **44,652** | **655,376** | **252,191** | **2,255,355** |

**21. Derivative financial instruments** (continued)

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | Total contract amount €000 |
|---|---|---|---|---|---|---|
| **Trading derivatives** | | | | | | |
| Forward exchange rate contracts | 4,923 | 4,493 | 1,928 | - | - | **11,344** |
| Currency swaps | 875,897 | 114,852 | 368 | - | - | **991,117** |
| Interest rate swaps | - | - | 6,219 | 15,471 | - | **21,690** |
| Currency options | 83 | - | - | - | - | **83** |
| Interest rate caps/floors | - | - | 500,000 | - | 18,950 | **518,950** |
| | **880,903** | **119,345** | **508,515** | **15,471** | **18,950** | **1,543,184** |
| **Derivatives qualifying for hedge accounting** | | | | | | |
| Fair value hedges - interest rate swaps | 44,182 | 41,530 | 101,465 | 247,158 | 266,500 | **700,835** |
| Net investments - forward exchange rate contracts and currency swaps | 107,193 | - | - | - | - | **107,193** |
| | **151,375** | **41,530** | **101,465** | **247,158** | **266,500** | **808,028** |
| **Total** | **1,032,278** | **160,875** | **609,980** | **262,629** | **285,450** | **2,351,212** |

*Interest rate benchmark reform*
As at 31 December 2022 and 2021 the interest rate benchmarks to which BOC PCL's hedge relationships are exposed to, are Euro Interbank Offered Rate (Euribor) and USD London Interbank Offered Rate (Libor) in relation to the cash flows of the hedging instruments. The Group has applied judgement in relation to market expectations regarding hedging instruments. The key judgement is that the cash flows for contracts currently indexing Interbank Offered Rate (IBOR) are expected to have broadly equivalent cash flows upon the transition of the contracts to IBOR replacement rates.

The table below indicates the nominal amount of derivatives in hedging relationships analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure BOC PCL manages through hedging relationships.

| Interest Rate Swaps | **2022 €000** | 2021 €000 |
|---|---|---|
| Euribor (3-month) | **770,731** | 529,831 |
| Libor USD (3-month) | **32,782** | 171,004 |
| **Total** | **803,513** | 700,835 |

Euribor is in compliance with EU Benchmarks Regulation and the Group does not consider that Euribor based derivatives are affected by the BMR Reform.

As at 31 December 2022, the Group's assessment regarding the on going transition to the new risk free rates (RFRs) indicates that the impact on the hedging relationships and in value terms is not significant. Further details in relation to interest rate benchmark reform are disclosed in Note 46.

## 22. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| **Financial assets** | **€000** | **€000** | €000 | €000 |
| Cash and balances with central banks | **9,567,258** | **9,567,258** | 9,230,883 | 9,230,883 |
| Loans and advances to banks | **204,811** | **193,349** | 291,632 | 289,519 |
| Investments at FVPL | **190,209** | **190,209** | 199,194 | 199,194 |
| Investments at FVOCI | **467,375** | **467,375** | 748,695 | 748,695 |
| Investments at amortised cost | **2,046,119** | **1,953,336** | 1,191,274 | 1,196,753 |
| Derivative financial assets | **48,153** | **48,153** | 6,653 | 6,653 |
| Loans and advances to customers | **9,961,642** | **10,020,131** | 9,836,405 | 9,642,212 |
| Life insurance business assets attributable to policyholders | **531,061** | **531,061** | 540,827 | 540,827 |
| Financial assets classified as held for sale | **-** | **-** | 250,370 | 250,370 |
| Other financial assets | **415,622** | **469,562** | 393,464 | 393,464 |
| | **23,432,250** | **23,440,434** | 22,689,397 | 22,498,570 |
| **Financial liabilities** | | | | |
| Funding from central banks and deposits by banks | **2,484,332** | **2,399,266** | 3,426,639 | 3,328,987 |
| Derivative financial liabilities | **16,169** | **16,169** | 32,452 | 32,452 |
| Customer deposits | **18,998,319** | **18,963,934** | 17,530,883 | 17,532,995 |
| Debt securities in issue | **297,636** | **254,179** | 302,555 | 292,615 |
| Subordinated liabilities | **303,812** | **265,472** | 342,373 | 355,159 |
| Other financial liabilities and lease liabilities | **255,455** | **255,455** | 275,519 | 275,519 |
| | **22,355,723** | **22,154,475** | 21,910,421 | 21,817,727 |

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

The Group uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on market observable data.

For assets and liabilities that are recognised in the Consolidated Financial Statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The following is a description of the determination of fair value for financial instruments and properties which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

*Derivative financial instruments*
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

**22. Fair value measurement** (continued)

*Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)*
The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and BOC PCL's own credit quality respectively.

The Group calculates the CVA by applying the PD of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying BOC PCL's PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Group and multiplying the result by the loss expected in the event of default.

The expected exposure of derivatives is calculated as per the CRR and takes into account the netting agreements where they exist. A standard Loss Given Default (LGD) assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

*Investments at FVPL, investments at FVOCI and investments at amortised cost*
Investments which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. The rest of the investments are valued using quoted prices in active markets.

*Loans and advances to customers*
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the risk-free rate per currency, funding cost, servicing cost and the cost of capital, considering the risk weight of each loan. The discount rate used in the determination of the fair value of the loans and advances to customers measured at FVPL during the year ended 31 December 2022 ranges from 2.66% to 4.86% (2021:2.34%-8.50%).

*Customer deposits*
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of BOC PCL. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

*Loans and advances to banks*
Loans and advances to banks with maturity over one year are discounted using an appropriate risk-free rate plus the appropriate credit spread. For short-term lending, the fair value is approximated by the carrying value.

*Deposits by banks and funding from central banks*
Deposits by banks and funding from central banks with maturity over one year are discounted using an appropriate risk-free rate plus the appropriate credit spread. For short-term lending, the fair value is approximated by the carrying value.

*Debt securities in issue and Subordinated liabilities*
Debt securities and subordinated liabilities issuances are traded in an active market with quoted prices.

*Investment properties*
The fair value of investment properties is determined using valuations performed by external accredited, independent valuers. Further information on the techniques applied is disclosed in the remainder of this note.

*Owned property*
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers. Further information on the techniques applied is disclosed in the remainder of this note.

## 22. Fair value measurement (continued)

*Model inputs for valuation*
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The following table presents the fair value measurement hierarchy of the Group's financial and non-financial assets and liabilities recorded at fair value and financial assets and financial liabilities for which fair value is disclosed, by level of the fair value hierarchy:

| 2022 | Level 1 €000 | Level 2 €000 | Level 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| *Investment properties* | | | | |
| Residential | - | - | 9,045 | **9,045** |
| Offices and other commercial properties | - | - | 47,837 | **47,837** |
| Manufacturing and industrial properties | - | - | 25,607 | **25,607** |
| Land (fields and plots) | - | - | 2,610 | **2,610** |
| | - | - | 85,099 | **85,099** |
| *Freehold property* | | | | |
| Offices and other commercial properties | - | - | 203,658 | **203,658** |
| *Loans and advances to customers measured at FVPL* | - | - | 214,359 | **214,359** |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 103 | - | **103** |
| Currency swaps | - | 283 | - | **283** |
| Interest rate swaps | - | 437 | - | **437** |
| Currency options | - | 287 | - | **287** |
| Interest rate caps/floors | - | 3,094 | - | **3,094** |
| | - | 4,204 | - | **4,204** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 43,939 | - | **43,939** |
| Net investments-forward exchange rate contracts and currency swaps | - | 10 | - | **10** |
| | - | 43,949 | - | **43,949** |
| *Investments at FVPL* | 84,743 | 96,498 | 8,968 | **190,209** |
| *Investments at FVOCI* | 455,110 | - | 12,265 | **467,375** |
| | **539,853** | **144,651** | **524,349** | **1,208,853** |
| **Other financial assets not measured at fair value** | | | | |
| Loans and advances to banks | - | 193,349 | - | **193,349** |
| Investments at amortised cost | 1,871,757 | 69,300 | 12,279 | **1,953,336** |
| Loans and advances to customers | - | - | 9,805,772 | **9,805,772** |
| | **1,871,757** | **262,649** | **9,818,051** | **11,952,457** |

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €4,538 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €1,145 thousand in their fair value.

For one investment included in debt and other non-equity securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 with a carrying amount of €8,968 thousand as at 31 December 2022, a change in the conversion factor by 10% would result in a change in the value of the debt and other non-equity securities by €897 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 46.

## 22. Fair value measurement (continued)

The fair value measurement hierarchy for life insurance business assets attributable to policy holders is disclosed in Note 24.

| 2022 | Level 1 €000 | Level 2 €000 | Level 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Liabilities measured at fair value** | | | | |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 123 | - | **123** |
| Currency swaps | - | 10,316 | - | **10,316** |
| Interest rate swaps | - | 420 | - | **420** |
| Currency options | - | 65 | - | **65** |
| Interest rate caps/floors | - | 3,094 | - | **3,094** |
| | - | 14,018 | - | **14,018** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 2,151 | - | **2,151** |
| | - | 2,151 | - | **2,151** |
| | **-** | **16,169** | **-** | **16,169** |
| **Other financial liabilities not measured at fair value** | | | | |
| Funding from central banks | - | 1,944,145 | - | **1,944,145** |
| Deposits by banks | - | 455,121 | - | **455,121** |
| Customer deposits | - | - | 18,963,934 | **18,963,934** |
| Debt securities in issue | 254,179 | - | - | **254,179** |
| Subordinated liabilities | - | 265,472 | - | **265,472** |
| | **254,179** | **2,664,738** | **18,963,934** | **21,882,851** |

The fair value of the subordinated liabilities has been classified as Level 2 in the fair value hierarchy because it has been estimated using market observable inputs of financial instruments with similar characteristics.

**22. Fair value measurement** (continued)

| **2021** | Level 1 €000 | Level 2 €000 | Level 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| *Investment properties* | | | | |
| Residential | - | - | 11,937 | **11,937** |
| Offices and other commercial properties | - | - | 55,805 | **55,805** |
| Manufacturing and industrial properties | - | - | 28,610 | **28,610** |
| Hotels | - | - | 536 | **536** |
| Land (fields and plots) | - | - | 20,857 | **20,857** |
| | - | - | 117,745 | **117,745** |
| *Investment properties held for sale* | | | | |
| Residential | - | - | 1,790 | **1,790** |
| Offices and other commercial properties | - | - | 2,635 | **2,635** |
| Manufacturing and industrial properties | - | - | 896 | **896** |
| | - | - | 5,321 | **5,321** |
| *Freehold property* | | | | |
| Offices and other commercial properties | - | - | 195,666 | **195,666** |
| *Freehold property held for sale* | | | | |
| Offices and other commercial properties | - | - | 10,408 | **10,408** |
| *Loans and advances to customers measured at FVPL* | - | - | 281,868 | **281,868** |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 81 | - | **81** |
| Currency swaps | - | 4,388 | - | **4,388** |
| Interest rate swaps | - | 86 | - | **86** |
| Currency options | - | 62 | - | **62** |
| Interest rate caps/floors | - | 223 | - | **223** |
| | - | 4,840 | - | **4,840** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 1,813 | - | **1,813** |
| *Investments at FVPL* | 98,016 | 95,144 | 6,034 | **199,194** |
| *Investments at FVOCI* | 734,832 | - | 13,863 | **748,695** |
| | **832,848** | **101,797** | **630,905** | **1,565,550** |
| **Other financial assets not measured at fair value** | | | | |
| Loans and advances to banks | - | 289,519 | - | **289,519** |
| Investments at amortised cost | 1,074,144 | 98,238 | 24,371 | **1,196,753** |
| Loans and advances to customers | - | - | 9,360,344 | **9,360,344** |
| | **1,074,144** | **387,757** | **9,384,715** | **10,846,616** |

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €4,647 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €784 thousand in their fair value.

For one investment included in debt and other non-equity securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 with a carrying amount of €5,534 thousand as at 31 December 2021, a change in the conversion factor by 10% would result in a change in the value of the debt and other non-equity securities by €553 thousand.

**22. Fair value measurement** (continued)

| 2021 | Level 1 €000 | Level 2 €000 | Level 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Liabilities measured at fair value** | | | | |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 55 | - | **55** |
| Currency swaps | - | 1,342 | - | **1,342** |
| Interest rate swaps | - | 61 | - | **61** |
| Currency options | - | 21 | - | **21** |
| Interest rate caps/floors | - | 218 | - | **218** |
| | - | 1,697 | - | **1,697** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 30,025 | - | **30,025** |
| Net investments-forward exchange rate contracts and currency swaps | - | 730 | - | **730** |
| | - | 30,755 | - | **30,755** |
| | **-** | **32,452** | **-** | **32,452** |
| **Other financial liabilities not measured at fair value** | | | | |
| Funding from central banks | - | 2,950,646 | - | **2,950,646** |
| Deposits by banks | - | 378,341 | - | **378,341** |
| Customer deposits | - | - | 17,532,995 | **17,532,995** |
| Debt securities in issue | 292,615 | - | - | **292,615** |
| Subordinated liabilities | - | 355,159 | **-** | **355,159** |
| | **292,615** | **3,684,146** | **17,532,995** | **21,509,756** |

The cash and balances with central banks are financial instruments whose carrying value is a reasonable approximation of fair value because they are mostly short-term in nature or are repriced to current market rates frequently. The carrying value of other financial assets and other financial liabilities and assets classified as held for sale is a close approximation of their fair value and they are categorised as Level 3.

During the years ended 31 December 2022 and 2021 there were no significant transfers between Level 1 and Level 2.

## 22. Fair value measurement (continued)

*Movements in Level 3 assets measured at fair value*

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid and consequently, the Group requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 financial assets which are measured at fair value is presented below:

| | **2022** | | | | | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Investment properties** | **Investment properties held for sale** | **Own use properties** | **Own use properties held for sale** | **Loans and advances to customers** | **Financial instruments** | Investment properties | Investment properties held for sale | Own use properties | Own use properties held for sale | Loans and advances to customers | Financial instruments |
| | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** | €000 | €000 | €000 | €000 | €000 | €000 |
| **1 January** | **117,745** | **5,321** | **195,666** | **10,408** | **281,868** | **19,897** | 128,088 | 1,248 | 202,146 | 10,408 | 289,861 | 33,182 |
| Additions | **9,166** | **-** | **3,173** | **-** | **-** | **10,054** | 2,774 | - | 857 | - | - | 396 |
| Disposals | **(39,484)** | **(5,321)** | **-** | **-** | **-** | **(500)** | (10,425) | (1,656) | - | - | - | (903) |
| Transfers from investment properties to non-current assets and disposal groups held for sale (Note 29) | **-** | **-** | **-** | **-** | **-** | **-** | (5,729) | 5,729 | - | - | - | - |
| Transfers from own use properties to investment properties (Note 25) | **-** | **-** | **-** | **-** | **-** | **-** | 5,616 | - | (5,616) | - | - | - |
| Transfers from own use properties held for sale to own use properties (Note 29) | **-** | **-** | **10,408** | **(10,408)** | **-** | **-** | - | - | - | - | - | - |
| Conversion of instruments into common shares | **-** | **-** | **-** | **-** | **-** | **(4,102)** | - | - | - | - | - | (18,618) |
| Depreciation charge for the year | **-** | **-** | **(2,046)** | **-** | **-** | **-** | - | - | (2,129) | - | - | - |
| Impairment charge for the year (Note 16) | **-** | **-** | **(3,543)** | **-** | **-** | **-** | - | - | - | - | - | - |
| Fair value (losses)/gains | **(2,915)** | **-** | **-** | **-** | **-** | **(4,133)** | (2,783) | - | 408 | - | - | 5,840 |
| Net gains/(losses) on loans and advances to customers measured at FVPL (Note 11) | **-** | **-** | **-** | **-** | **4,050** | **-** | - | - | - | - | (17,292) | - |
| Derecognition of loans | **-** | **-** | **-** | **-** | **(82,522)** | **-** | - | - | - | - | (3,083) | - |
| Interest on loans (Note 7) | **-** | **-** | **-** | **-** | **10,963** | **-** | - | - | - | - | 12,382 | - |
| Foreign exchange adjustments | **587** | **-** | **-** | **-** | **-** | **17** | 204 | - | - | - | - | - |
| **31 December** | **85,099** | **-** | **203,658** | **-** | **214,359** | **21,233** | 117,745 | 5,321 | 195,666 | 10,408 | 281,868 | 19,897 |

## 22. Fair value measurement (continued)

### Valuation policy and sensitivity analysis

*Investment properties, investment properties held for sale and own use properties*
The valuation technique mainly applied by the Group is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Group also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties, investment properties held for sale and own use properties are presented in the tables below:

## 22. Fair value measurement (continued)

### Valuation policy and sensitivity analysis (continued)

*Analysis of investment properties*

| Type and country | 2022 | Estimated rental value per $m^2$ per annum | Estimated building cost per $m^2$ | Yield | Estimated fair value per $m^2$ | Estimated land value per $m^2$ | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Residential** | **€000** | | | | | | **$m^2$** | **$m^2$** | **Years** |
| Cyprus | 4,911 | €37-€93 | €185-€1,673 | 5%-7% | €427-€2,338 | €130-€650 | 134-1,203 | 89-1,420 | 10-104 |
| Greece | 4,134 | €6-€115 | €164-€2,115 | 2%-7.1% | €45-€1,892 | €7-€4,017 | 24-5,147 | 51-825 | 11-50 |
| | **9,045** | | | | | | | | |
| **Offices and other commercial properties** | | | | | | | | | |
| Cyprus | 44,837 | €36-€250 | €470 | 3.4%-10% | €520-€5,781 | €150-€5,000 | 348-35,413 | 16-5,850 | 9-67 |
| Greece | 3,000 | €19-€381 | €193-€3,548 | 5.4%-10.5% | €72-€3,638 | €142-€265 | 100-8,582 | 6-4,692 | 18-64 |
| | **47,837** | | | | | | | | |
| **Manufacturing and industrial** | | | | | | | | | |
| Cyprus | 18,439 | €14-€62 | €360 | 4.5%-9% | €283-€1,272 | €550 | 2,202-15,965 | 743-8,007 | 10-38 |
| Greece | 7,168 | €7-€58 | €133-€461 | 3.5%-11% | €8-€439 | €5-€395 | 57-34,495 | 349-5,858 | 13-84 |
| | **25,607** | | | | | | | | |
| **Land (fields and plots)** | | | | | | | | | |
| Cyprus | **2,610** | n/a | n/a | n/a | n/a | €1,127 | 2,316 | n/a | n/a |
| **Total** | **85,099** | | | | | | | | |

*Analysis of own use properties*

| Type and country | 2022 | Estimated rental value per $m^2$ per annum | Estimated building cost per $m^2$ | Yield | Estimated fair value per $m^2$ | Estimated land value per $m^2$ | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Offices and other commercial properties** | **€000** | | | | | | **$m^2$** | **$m^2$** | **Years** |
| Cyprus | 203,658 | €76-€277 | €750-€1,855 | 5.6%-5.8% | €70-€6,164 | €70-€2,274 | 390-51,947 | 122-11,109 | 15-79 |
| **Total** | **203,658** | | | | | | | | |

## 22. Fair value measurement (continued)

### Valuation policy and sensitivity analysis (continued)

*Analysis of investment properties and investment properties held for sale*

| Type and country | 2021 | Estimated rental value per m² per annum | Estimated building cost per m² | Yield | Estimated fair value per m² | Estimated land value per m² | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Residential** | **€000** | | | | | | **m²** | **m²** | **Years** |
| Cyprus | 9,577 | €35-€100 | €134-€1,370 | 4.5%-5% | €380-€2,297 | €110-€800 | 89-1,203 | 19-559 | 7-48 |
| Greece | 4,150 | €3-€115 | €131-€2,296 | 0.7%-8.4% | €50-€1,892 | €3-€2,437 | 5,147 | 51-825 | 10-49 |
| | **13,727** | | | | | | | | |
| **Offices and other commercial properties** | | | | | | | | | |
| Cyprus | 54,553 | €25-€352 | €1,172 | 4%-8% | €498-€6,981 | €580-€5,000 | 152-35,413 | 16-2,533 | 9-76 |
| Greece | 3,742 | €19-€272 | €207-€3,615 | 5.3%-11.3% | €74-€3,615 | €258 | 8,582 | 6-4,692 | 17-63 |
| Russia | 145 | n/a | €107 | n/a | €79 | €77 | 1,792-26,046 | 212-3,288 | 12-18 |
| | **58,440** | | | | | | | | |
| **Manufacturing and industrial** | | | | | | | | | |
| Cyprus | 21,822 | €14-€67 | €427 | 3.5%-7% | €305-€1,646 | €550 | 2,202-15,965 | 743-7,500 | 9-37 |
| Greece | 7,684 | €43 | €71-€450 | 5.2%-10% | €8-€425 | €399 | 57-34,495 | 349-5,858 | 12-83 |
| | **29,506** | | | | | | | | |
| **Hotels** | | | | | | | | | |
| Russia | **536** | n/a | €356 | n/a | €356 | n/a | n/a | 7,436 | 16 |
| **Land (fields and plots)** | | | | | | | | | |
| Cyprus | 17,701 | n/a | n/a | n/a | €550 | €550-€1,127 | 2,316-29,398 | n/a | n/a |
| Russia | 3,156 | n/a | n/a | n/a | €15 | €15-€23 | 58,600-689,000 | n/a | n/a |
| | **20,857** | | | | | | | | |
| **Total** | **123,066** | | | | | | | | |

*Analysis of own use properties and own use properties held for sale*

| Type and country | 2021 | Estimated rental value per m² per annum | Estimated building cost per m² | Yield | Estimated fair value per m² | Estimated land value per m² | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Offices and other commercial properties** | **€000** | | | | | | **m²** | **m²** | **Years** |
| Cyprus | 206,074 | €24-€277 | €580-€1,855 | 5.8%-6% | €14-€6,164 | €70-€2,274 | 390-598,767 | 122-11,233 | 14-78 |
| **Total** | **206,074** | | | | | | | | |

## 22. Fair value measurement (continued)

**Valuation policy and sensitivity analysis** (continued)

*Sensitivity analysis*
Most of the Group's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach could result in a significantly higher/lower fair value of the properties.

## 23. Loans and advances to customers

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Gross loans and advances to customers at amortised cost | **9,917,335** | 9,840,535 |
| Allowance for ECL for impairment of loans and advances to customers (Note 45.6) | **(178,442)** | (285,998) |
| | **9,738,893** | 9,554,537 |
| Gross loans and advances to group companies at amortised cost | **8,390** | - |
| Loans and advances to customers measured at FVPL | **214,359** | 281,868 |
| | **9,961,642** | 9,836,405 |

Gross loans and advances to group companies represent loans and advances to parent company classified as Stage 1 as at 31 December 2022.

The following tables present the Group's gross loans and advances to customers at amortised cost by staging and by geographical analysis (based on the country in which the loans are managed).

| | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | €000 | **€000** |
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | 7,931,511 | 1,586,488 | 372,821 | 115,544 | **10,006,364** |
| Residual fair value adjustment on initial recognition | (64,255) | (20,885) | (1,803) | (2,086) | **(89,029)** |
| **Gross loans at amortised cost** | **7,867,256** | **1,565,603** | **371,018** | **113,458** | **9,917,335** |
| **Cyprus** | **7,867,037** | **1,565,603** | **368,922** | **113,458** | **9,915,020** |
| **Other Countries** | **219** | **-** | **2,096** | **-** | **2,315** |
| | **7,867,256** | **1,565,603** | **371,018** | **113,458** | **9,917,335** |

| | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **2021** | €000 | €000 | €000 | €000 | **€000** |
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | 7,488,354 | 1,721,231 | 576,873 | 159,755 | **9,946,213** |
| Residual fair value adjustment on initial recognition | (69,659) | (22,051) | (3,530) | (10,438) | **(105,678)** |
| **Gross loans at amortised cost** | **7,418,695** | **1,699,180** | **573,343** | **149,317** | **9,840,535** |
| **Cyprus** | **7,418,432** | **1,699,180** | **545,327** | **149,317** | **9,812,256** |
| **Other countries** | **263** | **-** | **28,016** | **-** | **28,279** |
| | **7,418,695** | **1,699,180** | **573,343** | **149,317** | **9,840,535** |

*Residual fair value adjustment*
The residual fair value adjustment on initial recognition mainly relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment decreased the gross balance of loans and advances to customers. The residual fair value adjustment is included within the gross balances of loans and advances to customers as at each balance sheet date. However, for credit risk monitoring, the residual fair value adjustment as at each balance sheet date is presented separately from the gross balances of loans and advances, as shown in the tables above.

Loans and advances to customers measured at FVPL are managed in Cyprus.

## 23. Loans and advances to customers (continued)

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

| 2022<br>By business line | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | Total<br>€000 |
|---|---|---|---|---|---|
| Corporate and Large Corporate | 2,502,630 | 807,282 | 54,259 | 34,616 | **3,398,787** |
| International corporate | 685,099 | 150 | 35 | 24 | **685,308** |
| SMEs | 825,123 | 189,825 | 3,299 | 10,364 | **1,028,611** |
| Retail | | | | | |
| - housing | 2,982,436 | 305,714 | 30,071 | 12,413 | **3,330,634** |
| - consumer, credit cards and other | 704,959 | 152,815 | 14,376 | 15,746 | **887,896** |
| Restructuring | | | | | |
| - corporate | 2,842 | 34,246 | 20,689 | 10,175 | **67,952** |
| - SMEs | 12,643 | 10,603 | 23,374 | 2,381 | **49,001** |
| - retail housing | 5,168 | 22,018 | 42,155 | 3,292 | **72,633** |
| - retail other | 1,713 | 5,364 | 16,237 | 1,029 | **24,343** |
| Recoveries | | | | | |
| - corporate | - | - | 18,403 | 1,316 | **19,719** |
| - SMEs | - | - | 29,339 | 2,366 | **31,705** |
| - retail housing | - | - | 88,956 | 14,039 | **102,995** |
| - retail other | 108 | - | 28,569 | 4,953 | **33,630** |
| International banking services | 104,539 | 31,934 | 1,254 | 147 | **137,874** |
| Wealth management | 39,996 | 5,652 | 2 | 597 | **46,247** |
| | **7,867,256** | **1,565,603** | **371,018** | **113,458** | **9,917,335** |

| 2021 (restated)<br>By business line | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | Total<br>€000 |
|---|---|---|---|---|---|
| Corporate and Large Corporate | 2,365,329 | 878,698 | 71,763 | 44,269 | **3,360,059** |
| International corporate | 578,920 | 53,259 | 5,753 | 11 | **637,943** |
| SMEs | 812,211 | 215,012 | 12,522 | 10,589 | **1,050,334** |
| Retail | | | | | |
| - housing | 2,769,274 | 320,473 | 49,633 | 11,886 | **3,151,266** |
| - consumer, credit cards and other | 732,154 | 116,983 | 23,361 | 16,189 | **888,687** |
| Restructuring | | | | | |
| - corporate | 6,092 | 35,613 | 14,255 | 6,257 | **62,217** |
| - SMEs | 14,016 | 16,417 | 34,083 | 5,663 | **70,179** |
| - retail housing | 3,075 | 15,528 | 62,934 | 3,547 | **85,084** |
| - retail other | 1,409 | 5,701 | 24,838 | 1,050 | **32,998** |
| Recoveries | | | | | |
| - corporate | - | - | 29,600 | 6,474 | **36,074** |
| - SMEs | - | - | 35,685 | 3,632 | **39,317** |
| - retail housing | - | - | 154,469 | 28,650 | **183,119** |
| - retail other | 114 | - | 51,672 | 10,424 | **62,210** |
| International banking services | 92,193 | 40,715 | 2,775 | 235 | **135,918** |
| Wealth management | 43,908 | 781 | - | 441 | **45,130** |
| | **7,418,695** | **1,699,180** | **573,343** | **149,317** | **9,840,535** |

Loans and advances to customers pledged as collateral are disclosed in Note 47.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL of loans and advances to customers are set out in Note 45.

## 24. Life insurance business assets attributable to policyholders

| | 2022 €000 | 2021 €000 |
|---|---|---|
| Equity securities | **1,359** | 1,098 |
| Debt securities | **36,837** | 36,400 |
| Mutual funds | **443,299** | 441,410 |
| Bank deposits and other receivables | **49,566** | 61,919 |
| | **531,061** | 540,827 |
| Property | **11,260** | 10,970 |
| | **542,321** | 551,797 |

Financial assets of life insurance business attributable to policyholders are classified as investments at FVPL.

Bank deposits and other receivables include other financial receivables of €2,965 thousand (2021: €3,079 thousand).

In addition to the above assets, the life insurance subsidiary of the Group holds shares of the Company, as part of the assets attributable to policyholders with a carrying value as at 31 December 2022 of €236 thousand (2021: €143 thousand). Such shares are presented in the Consolidated Financial Statements as treasury shares (Note 35).

The analysis of the financial assets of life insurance business attributable to policyholders measured at fair value by level is presented below:

| **2022** | **Level 1 €000** | **Level 2 €000** | **Level 3 €000** | **Total €000** |
|---|---|---|---|---|
| Equity securities | **1,359** | **-** | **-** | **1,359** |
| Debt securities | **17,525** | **-** | **19,312** | **36,837** |
| Mutual funds | **440,108** | **-** | **3,191** | **443,299** |
| | **458,992** | **-** | **22,503** | **481,495** |
| **2021** | | | | |
| Equity securities | 1,098 | - | - | 1,098 |
| Debt securities | 17,287 | - | 19,113 | 36,400 |
| Mutual funds | 438,258 | - | 3,152 | 441,410 |
| | 456,643 | - | 22,265 | 478,908 |

Bank deposits are financial instruments whose carrying amount is a reasonable approximation of fair value, because they are short-term in nature or are repriced to current market rates frequently.

The movement of financial assets classified as Level 3 is presented below:

| | 2022 €000 | 2021 €000 |
|---|---|---|
| 1 January | **22,265** | 23,435 |
| Unrealised gains/(losses) recognised in the consolidated income statement | **238** | (1,170) |
| **31 December** | **22,503** | 22,265 |

During the years ended 31 December 2022 and 2021 there were no significant transfers between Level 1 and Level 2.

## 25. Property and equipment

| **2022** | Property €000 | Equipment €000 | **Total €000** |
|---|---|---|---|
| Net book value at 1 January | 231,896 | 20,234 | **252,130** |
| Additions | 3,898 | 2,854 | **6,752** |
| Transfers from non-current assets and disposal groups held for sale (Note 29) | 10,408 | - | **10,408** |
| Impairment | (3,543) | - | **(3,543)** |
| Disposals and write-offs | (46) | (92) | **(138)** |
| Depreciation charge for the year (Note 15) | (9,669) | (5,981) | **(15,650)** |
| New leases (Note 43) | 132 | 825 | **957** |
| Re-assessment of RoU assets (Note 43) | 3,922 | - | **3,922** |
| Derecognition of RoU assets (Note 43) | (1,460) | - | **(1,460)** |
| **Net book value at 31 December** | **235,538** | **17,840** | **253,378** |

| **1 January 2022** | | | |
|---|---|---|---|
| Cost or valuation | 296,406 | 141,220 | **437,626** |
| Accumulated depreciation | (64,510) | (120,986) | **(185,496)** |
| **Net book value** | **231,896** | **20,234** | **252,130** |

| **31 December 2022** | | | |
|---|---|---|---|
| Cost or valuation | 303,891 | 142,787 | **446,678** |
| Accumulated depreciation | (68,353) | (124,947) | **(193,300)** |
| **Net book value** | **235,538** | **17,840** | **253,378** |

| **2021** | Property €000 | Equipment €000 | **Total €000** |
|---|---|---|---|
| Net book value at 1 January | 251,023 | 21,451 | **272,474** |
| Additions | 1,546 | 4,741 | **6,287** |
| Revaluation | 408 | - | **408** |
| Transfers to investment properties (Note 22) | (5,616) | - | **(5,616)** |
| Disposals and write-offs | (7) | (134) | **(141)** |
| Depreciation charge for the year (Note 15) | (10,489) | (5,824) | **(16,313)** |
| New leases (Note 43) | 1,148 | - | **1,148** |
| Derecognition of RoU assets (Note 43) | (6,117) | - | **(6,117)** |
| **Net book value at 31 December** | **231,896** | **20,234** | **252,130** |

| **1 January 2021** | | | |
|---|---|---|---|
| Cost or valuation | 305,645 | 139,495 | **445,140** |
| Accumulated depreciation | (54,622) | (118,044) | **(172,666)** |
| **Net book value** | **251,023** | **21,451** | **272,474** |

| **31 December 2021** | | | |
|---|---|---|---|
| Cost or valuation | 296,406 | 141,220 | **437,626** |
| Accumulated depreciation | (64,510) | (120,986) | **(185,496)** |
| **Net book value** | **231,896** | **20,234** | **252,130** |

## 25. Property and equipment (continued)

The net book value of the Group's property comprises:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Freehold property | **203,658** | 195,666 |
| Improvements on leasehold property | **2,472** | 2,649 |
| RoU assets (Note 43) | **29,408** | 33,581 |
| **Total** | **235,538** | 231,896 |

Freehold property includes land amounting to €79,623 thousand (2021: €78,591 thousand) for which no depreciation is charged.

The Group's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. The Group performed revaluations as at 31 December 2020. The valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 22.

There were no charges against the freehold property of the Group as at 31 December 2022 and 2021.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2022 amounts to €142,555 thousand (2021: €134,000 thousand).

## 26. Intangible assets

| | Computer software | In-force life insurance business | **Total** |
|---|---|---|---|
| **2022** | €000 | €000 | **€000** |
| Net book value at 1 January | 54,144 | 129,890 | **184,034** |
| Additions | 17,347 | - | **17,347** |
| Decrease in value of in-force life insurance business (Note 12) | - | (14,114) | **(14,114)** |
| Disposals and write-offs | (392) | - | **(392)** |
| Amortisation charge for the year (Note 15) | (18,553) | - | **(18,553)** |
| **Net book value at 31 December** | **52,546** | **115,776** | **168,322** |
| | | | |
| **1 January 2022** | | | |
| Cost | 236,526 | 129,890 | **366,416** |
| Accumulated amortisation and impairment | (182,382) | - | **(182,382)** |
| **Net book value** | **54,144** | **129,890** | **184,034** |
| | | | |
| **31 December 2022** | | | |
| Cost | 253,353 | 115,776 | **369,129** |
| Accumulated amortisation and impairment | (200,807) | - | **(200,807)** |
| **Net book value** | **52,546** | **115,776** | **168,322** |

## 26. Intangible assets (continued)

| **2021** | Computer software €000 | In-force life insurance business €000 | **Total €000** |
|---|---|---|---|
| Net book value at 1 January | 59,080 | 126,176 | **185,256** |
| Additions | 16,053 | - | **16,053** |
| Increase in value of in-force life insurance business (Note 12) | - | 3,714 | **3,714** |
| Disposals and write-offs | (2,374) | - | **(2,374)** |
| Amortisation charge for the year (Note 15) | (18,615) | - | **(18,615)** |
| **Net book value at 31 December** | **54,144** | **129,890** | **184,034** |
| **1 January 2021** | | | |
| Cost | 224,722 | 126,176 | **350,898** |
| Accumulated amortisation and impairment | (165,642) | - | **(165,642)** |
| **Net book value** | **59,080** | **126,176** | **185,256** |
| **31 December 2021** | | | |
| Cost | 236,526 | 129,890 | **366,416** |
| Accumulated amortisation and impairment | (182,382) | - | **(182,382)** |
| **Net book value** | **54,144** | **129,890** | **184,034** |

Computer software includes internally developed computer software with a net carrying amount of €2,954 thousand (2021: €1,235 thousand).

### Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance business relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force business are:

| | | **2022** | 2021 |
|---|---|---|---|
| Discount rate (after tax) | | **10.0%** | 10.0% |
| Return on investments | | **5.0%** | 5.0% |
| Expense inflation | | **4.0%** | 3.5% |
| Mortality assumption* | Smokers | **M: 68% A67/70** | M: 68% A67/70 |
| | Non-Smokers | **M: 48.25% A67/70** | M: 48.25% A67/70 |
| | Smokers | **F: 68% A67/70 rated down by 4 years** | F: 68% A67/70 rated down by 4 years |
| | Non-Smokers | **F: 48.25% A67/70 rated down by 4 years** | F: 48.25% A67/70 rated down by 4 years |

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

## 27. Stock of property

The carrying amount of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During the year ended 31 December 2022 an impairment loss of €20,628 thousand (2021: €46,775 thousand) was recognised in 'Impairment net of reversals on non-financial assets' in the consolidated income statement. At 31 December 2022, stock of €529,316 thousand (2021: €519,978 thousand) is carried at net realisable value. Additionally, at 31 December 2022 stock of property with a carrying amount of €108,010 thousand (2021: €116,987 thousand) is carried at approximately its fair value less costs to sell.

**27. Stock of property** (continued)

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels and land (fields and plots). There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations.

The carrying amount of the stock of property is analysed in the tables below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net book value at 1 January | **1,111,604** | 1,349,609 |
| Additions | **76,851** | 34,347 |
| Disposals | **(126,797)** | (123,520) |
| Transfers to disposal group (Note 29) | **-** | (101,978) |
| Impairment (Note 16) | **(20,628)** | (46,775) |
| Foreign exchange adjustments | **2** | (79) |
| **Net book value at 31 December** | **1,041,032** | 1,111,604 |

As at 31 December 2022 there are charges against stock of property of the Group with a carrying value €20,989 thousand (2021: €21,015 thousand).

The table below shows the result on the disposal of stock of property in the year:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net proceeds | **140,767** | 136,816 |
| Carrying value of stock of property disposed of | **(126,797)** | (123,520) |
| Net gains on disposal of stock of property | **13,970** | 13,296 |

| **Analysis by type and country** | **Cyprus** | **Greece** | **Romania** | **Total** |
|---|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** | **€000** |
| Residential properties | 63,724 | 16,947 | 32 | **80,703** |
| Offices and other commercial properties | 142,475 | 11,263 | - | **153,738** |
| Manufacturing and industrial properties | 29,172 | 11,710 | 48 | **40,930** |
| Hotels | 24,027 | 437 | - | **24,464** |
| Land (fields and plots) | 736,913 | 4,284 | - | **741,197** |
| **Total** | **996,311** | **44,641** | **80** | **1,041,032** |

| **2021** | **€000** | **€000** | **€000** | **€000** |
|---|---|---|---|---|
| Residential properties | 74,248 | 18,350 | 32 | **92,630** |
| Offices and other commercial properties | 163,789 | 19,462 | - | **183,251** |
| Manufacturing and industrial properties | 33,170 | 15,972 | 43 | **49,185** |
| Hotels | 24,619 | 456 | - | **25,075** |
| Land (fields and plots) | 755,663 | 4,986 | 814 | **761,463** |
| **Total** | **1,051,489** | **59,226** | **889** | **1,111,604** |

## 28. Prepayments, accrued income and other assets

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| *Financial assets* | | |
| Debtors | **44,772** | 36,540 |
| Receivable relating to tax | **4,536** | 4,558 |
| Deferred purchase payment consideration | **311,523** | 299,766 |
| Other assets | **54,791** | 52,600 |
| | **415,622** | 393,464 |
| *Non-financial assets* | | |
| Reinsurers' share of insurance contract liabilities (Note 32) | **58,303** | 55,323 |
| Current tax receivable | **124,328** | 124,267 |
| Prepaid expenses | **613** | 701 |
| Retirement benefit plan assets (Note 14) | **816** | - |
| Other assets | **40,008** | 42,552 |
| | **224,068** | 222,843 |
| | **639,690** | 616,307 |

An analysis of changes in the gross carrying amount of the financial assets included in prepayments, accrued income and other assets is presented in the table below:

| | **Stage 1** | **Stage 3** | **Simplified method** | **Total** |
|---|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** | **€000** |
| 1 January | 377,412 | 37,157 | 14,271 | **428,840** |
| Net increase | 21,826 | 355 | 138 | **22,319** |
| **31 December** | **399,238** | **37,512** | **14,409** | **451,159** |
| | | | | |
| **2021** | | | | |
| 1 January | 81,508 | 35,031 | 13,865 | **130,404** |
| Net increase | 295,904 | 2,126 | 406 | **298,436** |
| **31 December** | **377,412** | **37,157** | **14,271** | **428,840** |

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

| | **Stage 1** | **Stage 3** | **Simplified method** | **Total** |
|---|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** | **€000** |
| 1 January | 2,557 | 31,761 | 1,058 | **35,376** |
| Write-offs | - | (206) | (236) | **(442)** |
| Changes to models and inputs used for ECL calculations | (450) | 626 | 427 | **603** |
| **31 December** | **2,107** | **32,181** | **1,249** | **35,537** |
| | | | | |
| **2021** | | | | |
| 1 January | - | 29,372 | 1,063 | **30,435** |
| Changes to models and inputs used for ECL calculations | 2,557 | 2,389 | (5) | **4,941** |
| **31 December** | **2,557** | **31,761** | **1,058** | **35,376** |

There were no financial assets classified as Stage 2 as at 31 December 2022 and 2021. In addition, no financial assets were measured at FVPL as at 31 December 2022 and 2021.

## 28. Prepayments, accrued income and other assets (continued)

On the completion date of the sale of Project Helix 2 (the 'Transaction') in June 2021, the Group recognised an amount of €381,567 thousand in other financial assets, which represented the fair value of the deferred consideration receivable from the Transaction (the 'DPP'). This amount is payable in four instalments up to December 2025 and each instalment carries interest up to each payment date. The first instalment in the amount of €84,579 thousand was received in December 2021. An amount of €10,889 thousand, which represents the interest income on DPP has been recognised in the Consolidated Income Statement for the year ended 31 December 2022 (2021: €5,335 thousand) within 'Interest income-Financial assets at amortised cost-Other financial assets' (Note 7). There are no other conditions attached. An amount of €13,983 thousand which represents the effect of discounting the DPP at the date of derecognition of the loan portfolio was recorded as part of the transaction within 'Credit losses to cover credit risk on loans and advances to customers' during the year ended 31 December 2021. The DPP is classified as Stage 1 as at 31 December 2022 and 2021.

During the year ended 31 December 2022, credit losses of €2,200 thousand were recognised in relation to other financial assets. This includes ECL losses of €603 thousand (of which €867 thousand relate to a partial reversal for 12-months ECL of the DPP), €1,310 thousand write-offs and €287 thousand impairment losses. During the year ended 31 December 2021, credit losses of €5,931 thousand were recognised in relation to prepayments, accrued income and other financial assets. This includes ECL losses of €4,941 thousand (of which €2,557 thousand relate to 12-months ECL of the DPP), €1,178 thousand write-offs and €188 thousand reversal of impairments.

## 29. Non-current assets and disposal groups held for sale

The following non-current assets and disposal groups were classified as held for sale as at 31 December 2021. There were no assets classified as held for sale as at 31 December 2022.

| | 2021 |
|---|---|
| | €000 |
| Disposal group 1 | 340,622 |
| Disposal group 2 | 7,921 |
| Freehold property (Note 25) | 10,408 |
| | 358,951 |

| | 2021 | |
|---|---|---|
| | Disposal Group 1 | Disposal Group 2 |
| | €000 | €000 |
| Gross loans and advances to customers | 543,663 | 12,126 |
| Allowance for ECL for impairment of loans and advances to customers (Note 45.6) | (300,608) | (4,811) |
| | 243,055 | 7,315 |
| Stock of property | 92,246 | 606 |
| Investment property | 5,321 | - |
| | 340,622 | 7,921 |

*Disposal Group 1*

Disposal group 1 comprised a portfolio of loans and advances to customers and a property portfolio (comprising stock of property and investment property) known as Project Helix 3 ('Project Helix 3' or the 'Helix 3 Transaction'), classified as held for sale since 30 September 2021. In November 2022, the Group completed the disposal of Project Helix 3 through the transfer of the portfolios to a licensed Cypriot Credit Acquiring Company (the CyCAC) by BOC PCL. The shares of the CyCAC were subsequently acquired by certain funds affiliated with PIMCO, the purchaser of Project Helix 3. The gross consideration on completion for the transaction amounted to approximately €366 million (including deposit received in 2021) and reflects adjustments resulting from, inter alia, loan repayments and property disposals proceeds received on the portfolios since the reference date 31 May 2021. The net consideration for the transaction (after transaction costs and other adjustments upon completion) corresponds to the net book value of the loans and advances to customers as at the date of completion, which amounted to €235 million, and the carrying value of the stock of property and investment properties which amounted to a total of €88 million.

## 29. Non-current assets and disposal groups held for sale (continued)

*Disposal Group 2*
Disposal group 2 comprised a portfolio of loans and advances to customers and stock of properties in Romania known as Project Sinope ('Project Sinope' or the 'Sinope Transaction'), classified as held for sale since 31 December 2021. The transaction was completed in August 2022 and all of the consideration has been received in cash by completion date.

*Freehold property*
Freehold property classified as held for sale as at 31 December 2021 was classified back to property and equipment as own use property as at 31 December 2022 as the property no longer met the criteria to be classified as held for sale.

## 30. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations as set out in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Targeted Longer-Term Refinancing Operations (TLTRO III) | **1,976,674** | 2,969,600 |

As at 31 December 2022, ECB funding amounted to €2 billion (2021: €3 billion) borrowed from various TLTRO III operations.

In recognition of the challenging credit environment during the pandemic period, the Governing Council of the ECB announced that the interest rate on all outstanding TLTRO III operations for the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 would be 50 basis points below the average rate applicable in the Eurosystem's main refinancing operations over the same period. The interest rate on the main refinancing operations during the above periods remained at 0%. For the counterparties whose eligible net lending reached the lending performance thresholds, the interest rate applied over the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 on all TLTRO III operations outstanding would be 50 basis points below the average interest rate on the deposit facility prevailing over the same period, and in any case not higher than minus 1%. BOC PCL exceeded the eligible net lending threshold applicable in the specified periods and was entitled to the beneficial rate of minus 1% for the period June 2020 to June 2022 and recognised interest at the beneficial rate over the corresponding period. Subsequently, BOC PCL updated the effective interest rate based on the contractual terms and applying changes in terms of the operations as a change in the EIR applied prospectively.

ECB during its October 2022 meeting, announced that from 23 November 2022 onwards, the applicable interest rate would be indexed to the average applicable key ECB interest rates from that date onward.

The maturity of TLTRO III is three years from the settlement of each operation, but there is an option available to early repay or reduce the amounts borrowed before their respective final maturity.

BOC PCL early repaid €1 billion of TLTRO III funding in December 2022.

Details on encumbered assets related to the above funding facilities are disclosed in Note 47.

## 31. Customer deposits

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| *By type of deposit* | | |
| Demand | **10,561,724** | 9,221,791 |
| Savings | **2,840,346** | 2,423,086 |
| Time or notice | **5,596,249** | 5,886,006 |
| | **18,998,319** | 17,530,883 |
| *By geographical area* | | |
| Cyprus | **13,019,109** | 11,992,960 |
| Greece | **1,933,771** | 1,906,854 |
| United Kingdom | **706,233** | 713,621 |
| United States | **178,962** | 133,355 |
| Germany | **168,785** | 127,013 |
| Romania | **69,514** | 54,306 |
| Russia | **700,465** | 661,820 |
| Ukraine | **290,050** | 276,248 |
| Belarus | **83,299** | 55,738 |
| Other countries | **1,848,131** | 1,608,968 |
| | **18,998,319** | 17,530,883 |

Deposits by geographical area are based on the country of passport of the Ultimate Beneficial Owner.

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| *By currency* | | |
| Euro | **17,067,299** | 15,736,030 |
| US Dollar | **1,529,548** | 1,373,584 |
| British Pound | **333,458** | 312,918 |
| Russian Rouble | **3,466** | 28,539 |
| Swiss Franc | **11,796** | 10,865 |
| Other currencies | **52,752** | 68,947 |
| | **18,998,319** | 17,530,883 |

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| *By business line* | | |
| Corporate and Large corporate | **1,915,300** | 1,602,216 |
| International corporate | **139,898** | 145,934 |
| SMEs | **1,007,555** | 866,860 |
| Retail | **11,333,783** | 11,051,397 |
| Restructuring | | |
| – Corporate | **16,017** | 21,658 |
| – SMEs | **6,375** | 13,091 |
| – Retail other | **10,152** | 9,862 |
| Recoveries | | |
| – Corporate | **1,262** | 1,383 |
| International banking services | **3,957,050** | 3,500,183 |
| Wealth management | **610,927** | 318,299 |
| | **18,998,319** | 17,530,883 |

## 32. Insurance liabilities

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| **Life insurance** | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| Life insurance contract liabilities | **609,842** | **(30,309)** | **579,533** | 672,973 | (32,714) | 640,259 |
| **Non-life insurance** | | | | | | |
| Provision for unearned premiums | **29,880** | **(13,154)** | **16,726** | 27,565 | (9,988) | 17,577 |
| *Other liabilities* | | | | | | |
| Claims outstanding | **40,173** | **(14,840)** | **25,333** | 35,629 | (12,621) | 23,008 |
| Unexpired risks reserve | **57** | **-** | **57** | 34 | - | 34 |
| Non-life insurance contract liabilities | **70,110** | **(27,994)** | **42,116** | 63,228 | (22,609) | 40,619 |
| | **679,952** | **(58,303)** | **621,649** | 736,201 | (55,323) | 680,878 |

Reinsurers' share of insurance contract liabilities and other reinsurance balances receivable are included in 'Prepayments, accrued income and other assets' (Note 28).

### Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| 1 January | **672,973** | **(32,714)** | **640,259** | 608,591 | (29,775) | 578,816 |
| New business | **17,610** | **(3,240)** | **14,370** | 28,449 | (4,297) | 24,152 |
| Change in existing business | **(80,741)** | **5,645** | **(75,096)** | 35,933 | 1,358 | 37,291 |
| **31 December** | **609,842** | **(30,309)** | **579,533** | 672,973 | (32,714) | 640,259 |

### Non-life insurance contract liabilities

The movement of non-life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| **Provisions for unearned premiums** | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| 1 January | **27,565** | **(9,988)** | **17,577** | 26,178 | (9,250) | 16,928 |
| Premium income (Note 12) | **83,195** | **(42,729)** | **40,466** | 77,261 | (35,311) | 41,950 |
| Earned premiums | **(80,880)** | **39,563** | **(41,317)** | (75,874) | 34,573 | (41,301) |
| **31 December** | **29,880** | **(13,154)** | **16,726** | 27,565 | (9,988) | 17,577 |

The provision for unearned insurance and reinsurance premiums represents the portion of premiums that relate to risks that have not yet expired at the reporting date.

## 32. **Insurance liabilities** (continued)

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| **Claims outstanding** | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| 1 January | **35,629** | **(12,621)** | **23,008** | 36,756 | (14,454) | 22,302 |
| Amount paid for claims settled in the year (Note 12) | **(23,464)** | **9,925** | **(13,539)** | (22,766) | 8,858 | (13,908) |
| Increase in liabilities arising from claims | **28,008** | **(12,144)** | **15,864** | 21,639 | (7,025) | 14,614 |
| **31 December** | **40,173** | **(14,840)** | **25,333** | 35,629 | (12,621) | 23,008 |
| Reported claims | **38,536** | **(14,132)** | **24,404** | 33,809 | (11,815) | 21,994 |
| Incurred but not reported | **1,637** | **(708)** | **929** | 1,820 | (806) | 1,014 |
| **31 December** | **40,173** | **(14,840)** | **25,333** | 35,629 | (12,621) | 23,008 |

## 33. **Debt securities in issue and Subordinated liabilities**

| | | **2022** | | 2021 | |
|---|---|---|---|---|---|
| | | **Nominal value** | **Carrying value** | Nominal value | Carrying value |
| **Subordinated liabilities** | **Contractual interest rate** | **€000** | **€000** | €000 | €000 |
| Subordinated Tier 2 Capital Note - January 2017 | 9.25% up to 19 January 2022 | **-** | **-** | 35,605 | 38,561 |
| Subordinated Tier 2 Capital Note - April 2021 | 6.625% up to 23 October 2026 | **300,000** | **303,812** | 300,000 | 303,812 |
| | | **300,000** | **303,812** | 335,605 | 342,373 |
| **Debt securities in issue** | | | | | |
| Senior Preferred Notes - June 2021 | 2.50% up to 24 June 2026 | **300,000** | **297,636** | 300,000 | 302,555 |

BOCH and BOC PCL maintain a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

***Subordinated Liabilities***

*Subordinated Tier 2 Capital Note - January 2017*
In January 2017, BOC PCL issued a €250 million unsecured and subordinated Tier 2 Capital Note under the EMTN Programme. The note was priced at par with a coupon of 9.25% per annum payable annually up to 19 January 2022 and thereafter at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The note had a maturity date on 19 January 2027. BOC PCL had the option to redeem the note early on 19 January 2022, subject to applicable regulatory consents. In April 2021, BOC PCL invited the holders of this note to tender it for purchase by BOC PCL at a price of 105.5% plus accrued interest and following acceptance of the valid tenders of €207 million nominal amount, proceeded with the re-purchase. As a result, BOC PCL incurred a loss of €12,558 thousand for the year ended 31 December 2021, while at the same time forfeiting the relevant obligation for future coupon payments. By 31 December 2021, the Group purchased from the open market a further €7 million nominal amount of the notes, which were held by BOC PCL. On 19 January 2022, BOC PCL exercised its option to redeem at par the remaining nominal amount outstanding of the notes. All outstanding notes were cancelled. The note was listed on the Luxembourg Stock Exchange’s Euro Multilateral Trading Facility (MTF) market.

## 33. Debt securities in issue and Subordinated liabilities (continued)

*Subordinated Tier 2 Capital Note - April 2021*
In April 2021, BOCH issued a €300 million unsecured and subordinated Tier 2 Capital Notes under the EMTN Programme and immediately after, BOCH and the Company entered into an agreement pursuant to which BOCH on lent to the Company the entire €300 million proceeds of the issue of the Note (the 'T2 Loan') on terms substantially identical to the terms and conditions of the Note issued by BOCH. The T2 Loan was priced at par with a coupon of 6.625% per annum payable annually in arrears and resettable on 23 October 2026 at the then prevailing 5-year swap rate plus a margin of 6.902% per annum up to 23 October 2031, payable annually. The note matures on 23 October 2031. The Company has the option to redeem the T2 Loan early on any day during the six-month period from 23 April 2026 to 23 October 2026, subject to applicable regulatory consents.

The fair value of the Subordinated liabilities as at 31 December 2022 and 2021 is disclosed in Note 22.

***Debt securities in issue***

*Senior Preferred Notes - June 2021*
In June 2021, BOC PCL issued a €300 million senior preferred note under the EMTN Programme. The note was priced at par with a fixed coupon of 2.50% per annum, payable annually in arrears and resettable on 24 June 2026. The note matures on 24 June 2027. BOC PCL has the option to redeem the note early on 24 June 2026, subject to applicable regulatory consents. The note is listed on the Luxembourg Stock Exchange's Euro MTF market. The note complies with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contributes towards BOC PCL's MREL requirements.

The fair value of the debt securities in issue as at 31 December 2022 and 2021 is disclosed in Note 22.

## 34. Accruals, deferred income, other liabilities and other provisions

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Income tax payable and related provisions | **41,097** | 11,163 |
| Special defence contribution payable | **379** | 462 |
| Retirement benefit plans liabilities (Note 14) | **3,694** | 1,673 |
| Provisions for financial guarantees and commitments (Notes 45.5.1 and 45.5.2) | **17,429** | 21,945 |
| Liabilities for investment-linked contracts under administration | **47,566** | 33,809 |
| Accrued expenses and other provisions | **65,687** | 79,214 |
| Deferred income | **18,061** | 16,441 |
| Items in the course of settlement | **97,585** | 64,024 |
| Lease liabilities (Note 43) | **30,190** | 33,981 |
| Advances received for disposal group held for sale (Note 29) | **-** | 19,225 |
| Other liabilities | **65,165** | 80,089 |
| | **386,853** | 362,026 |

Other liabilities include an amount of €10,385 thousand (2021: €26,476 thousand) relating to the guarantee fee for the conversion of DTA into tax credits (Note 17) and an amount of €9,874 thousand (2021: €6,642 thousand) relating to card processing transactions.

The ECL allowance for financial guarantees and commitments is analysed by stage in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Stage 1 | **209** | 39 |
| Stage 2 | **207** | 293 |
| Stage 3 | **17,013** | 21,613 |
| | **17,429** | 21,945 |

## 35. Share capital

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number of shares (thousand)** | **€000** | Number of shares (thousand) | €000 |
| *Authorised* | | | | |
| Ordinary shares of €0.10 each | **47,677,593** | **4,767,759** | 47,677,593 | 4,767,759 |
| *Issued* | | | | |
| **1 January and 31 December** | **9,597,945** | **959,794** | 9,597,945 | 959,794 |

**Authorised and issued share capital**

All issued ordinary shares carry the same rights.

There were no changes to the authorised or issued share capital during the years ended 31 December 2022 and 2021.

**Share premium reserve**

There were no changes to the share premium reserve during the years ended 31 December 2022 and 2021.

**Treasury shares of the Company**

There are no treasury shares of the Company as at 31 December 2022 and 2021.

**Other equity instruments**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Reset Perpetual Additional Tier 1 Capital Securities | **220,000** | 220,000 |

In December 2018 the BOCH issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the BOCH AT1). On the same date, the Company and BOCH entered into an agreement pursuant to which BOCH lent to the Company the entire €220 million proceeds of the issue of the BOCH AT1 on terms substantially identical to the terms and conditions of the BOCH AT1. The AT1 Loan constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. During the year ended 31 December 2022, two coupon payments to AT1 holders were made of a total amount of €27,500 thousand and have been recognised in retained earnings (2021: €27,500 thousand). The Company may elect to cancel any interest payment for an unlimited period, on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain conditions. AT1 is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and on each subsequent fifth anniversary subject to the prior approval of the regulator.

## 36. Dividends

Based on the 2021 SREP decision BOCH and BOC PCL were under a regulatory prohibition for equity dividend distribution in 2022, similar to prior years. This prohibition does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital. No dividends were declared or paid during the years 2022 and 2021.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by BOCH and BOC PCL.

Following the 2022 SREP decision, effective from 1 January 2023, the equity dividend distribution prohibition was amended, for both BOCH and BOC PCL, so that any dividend distribution shall be subject to regulatory approval.

## 37. Retained earnings

For the purpose of dividend distribution, retained earnings determined at the Company level, are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution (SDC) at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents or individuals who are domiciled in Cyprus. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus. From 1 March 2019, the deemed dividend distribution is subject to 1.70% contribution to the General Health System (GHS), increased to 2.65% from 1 March 2020, with the exemption of April 2020 until June 2020 when the 1.70% rate was applicable.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This SDC and GHS are paid by the Company on account of the shareholders. BOC PCL had no profits after tax for the relevant year as defined by the Special Defence Contribution Law and as such no payment was made during 2022 and 2021.

## 38. Fiduciary transactions

The Group offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 31 December 2022 amounted to €1,682,019 thousand (2021: €1,577,173 thousand).

## 39. Provisions for pending litigation, claims, regulatory and other matters

The Group, in the ordinary course of business, is involved in various disputes and legal proceedings and is subject to enquiries and examinations, requests for information, audits, investigations, legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent restructuring of BOC PCL in 2013 as a result of the bail-in Decrees, BOC PCL is subject to a large number of proceedings and investigations that either precede or result from the events that occurred during the period of the bail-in Decrees.

Apart from what is described below, the Group considers that none of these matters are material, either individually or in aggregate. Nevertheless, provisions have been made where: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so, because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses (Note 5.4). Where an individual provision is material, the fact that a provision has been made is stated except to the extent that doing so would be prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. There are also situations where the Group may enter into a settlement agreement. This may occur only if such settlement is in BOC PCL's interest (such settlement does not constitute an admission of wrongdoing) and only takes place after obtaining legal advice and all approvals by the appropriate bodies of management. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings, regulatory and other matters as at 31 December 2022 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

## 39. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 39.1 Pending litigation and claims

*Investigations and litigation relating to securities issued by BOC PCL*
A number of institutional and retail customers have filed various separate actions against BOC PCL alleging that BOC PCL is guilty of misselling in relation to securities issued by BOC PCL between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon BOC PCL in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

BOC PCL is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be demonstrated that the relevant BOC PCL's officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', BOC PCL may face significant difficulties.

To date, a number of cases have been tried in Greece. BOC PCL has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years.

So far three capital securities cases have been adjudicated in favour of BOC PCL and four cases have been adjudicated against BOC PCL at Areios Pagos (Supreme Court of Greece). The cases that BOC PCL has won will be retried by the Court of Appeal as per the direction of the Supreme Court. One of the said cases has already been retried by the Court of Appeal and the ruling was in favour of BOC PCL. There has been a new petition for annulment against this decision of the Court of Appeal and the case will be retried before the Supreme Court in 2023. The four cases that BOC PCL has lost will not be retried and are therefore deemed as concluded.

In Cyprus sixteen judgments have been issued so far with regards to BOC PCL capital securities. Ten of the said judgments have been issued in favour of BOC PCL (dismissing the plaintiffs' claims) and six of them against BOC PCL. BOC PCL has filed appeals with regards to all of the cases where the judgment was issued against it. In five of the ten cases that BOC PCL won, the plaintiffs have filed an appeal. It is to be noted that the statutory limitation period for filing claims with respect to this and other matters for which the cause of action arose prior and up to 31 December 2015, expired on 31 December 2021.

Provision has been made based on management's best estimate of probable outflows for capital securities related litigation.

*Bail-in related litigation*
Depositors
A number of BOC PCL's depositors, who allege that they were adversely affected by the bail-in, filed claims against BOC PCL and other parties (such as the CBC and the Ministry of Finance of Cyprus) including against BOC PCL as the alleged successor of Laiki Bank on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. BOC PCL is defending these actions.

BOC PCL has won four cases with regards to bail-in related litigation (on failure to follow instructions). The plaintiffs have filed appeals with respect to two of the said judgments.

BOC PCL also won three bail-in decree related cases. In summary, the court ruled that the measures that the government implemented were necessary to prevent the collapse of the financial sector, which would have detrimental consequences for the country's economy. Under the circumstances the government could rely on the doctrine of necessity when it imposed the bail-in. Up to the date of the Consolidated Financial Statements only one appeal has been filed with respect to the above mentioned judgments. BOC PCL lost one Laiki Bail-in decree case but it is the opinion of legal advisors of BOC PCL that this case is a one-off case which turned on its own particular facts.

## 39. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 39.1 Pending litigation and claims (continued)

BOC PCL won one and lost two bail-in wrongful application related cases. An appeal that was filed by BOC PCL is still pending with regards to this matter. With regards to the case that BOC PCL won, the plaintiffs have not filed an appeal.

Shareholders
A number of actions for damages have been filed with the District Courts of Cyprus alleging either the unconstitutionality of the Resolution Law and the Bail-in Decrees, or a misapplication of same by BOC PCL (as regards the way and methodology whereby such Decrees have been implemented), or that BOC PCL failed to follow instructions promptly prior to the bail-in coming into force. As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. BOC PCL contests all of these claims.

Legal position of the Group
All of the above claims are being vigorously disputed by the Group, in close consultation with the appropriate state and governmental authorities. The position of the Group is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

*Provident fund case*
In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against BOC PCL claiming €70 million allegedly owed as part of BOC PCL's contribution by virtue of an agreement with the Union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for BOC PCL to predict the resolution of this matter, including the timing or any possible impact on BOC PCL.

*Employment litigation*
Former employees of the Group have instituted a number of employment claims including unfair dismissals and one claim for Provident Fund entitlements against BOC PCL and the Trustees of the Provident Fund. In July 2021 the claim for Provident Fund entitlements was settled. The Group does not consider that the pending cases in relation to employment will have a material impact on its financial position. A judgment has been issued in one of the unfair dismissals cases and BOC PCL lost. BOC PCL has filed an appeal with respect to this case. The facts of this case are unique and it is not expected to affect the rest of the cases where unfair dismissal is claimed.

Additionally, a number of former employees have filed claims against BOC PCL contesting entitlements received relating to the various voluntary exit plans. As at the reporting date, the Group does not expect that these actions will have a material impact on its financial position.

*Swiss Francs loans litigation in Cyprus and the UK*
A number of actions have been instituted against BOC PCL by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that BOC PCL misled these borrowers and/or misrepresented matters, in violation of applicable law. BOC PCL is contesting the said proceedings. The Group does not expect that these actions will have a material impact on its financial position.

*UK property lending claims*
BOC PCL is the defendant in certain proceedings alleging that BOC PCL is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the UK are currently stayed in order for the parties to have time to negotiate possible settlements. The Group does not expect that these negotiations will lead to outflows for the Group.

*Banking business cases*
There is a number of banking business cases where the amounts claimed are significant. These cases primarily concern allegations as to BOC PCL's standard policies and procedures allegedly resulting to damages and other losses for the claimants. Further, there are several other banking claims, where the amounts involved are not as significant. Management has assessed either the probability of loss as remote and/or does not expect any future outflows with respect to these cases to have a material impact on the financial position of the Group. Such matters arise as a result of the Group’s activities and management appropriately assesses the facts and the risks of each case accordingly.

## 39. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 39.1 Pending litigation and claims (continued)

*General criminal investigations and proceedings*
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. BOC PCL is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Group is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

*Others*
An investigation is in process related to potentially overstated and/or fictitious claims paid by the non-life insurance subsidiary of the Group. The information usually required by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed on the grounds that it is expected to seriously prejudice the outcome of the investigation and/or the possible taking of legal action. Based on the information available at present, management considers that it is unlikely for this matter to have a material adverse impact on the financial position and capital adequacy of the non-life insurance subsidiary and thereby the Group, also taking into account that it is virtually certain that compensations will be received from a relevant insurance coverage, upon the settlement of any obligation that may arise.

### 39.2 Regulatory matters

*The Hellenic Capital Market Commission (HCMC) Investigation*
The HCMC is currently in the process of investigating matters concerning the Group's investment in Greek Government Bonds from 2009 to 2011, including, inter alia, related non-disclosure of material information in BOC PCL's CCS, CECS and rights issue prospectuses (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some investors regarding BOC PCL's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

*The Cyprus Securities and Exchange Commission (CySEC) Investigations*
CySEC has concluded (in two stages) during 2013 and 2014 its investigation with respect to BOC PCL exposure to Greek Government Bonds and the non-disclosure of material information and other corporate governance deficiencies relating to the said exposure. In this respect, CySEC has issued two decisions, coming to the conclusion that BOC PCL was in breach of certain laws regarding disclosure of information. At all times, BOC PCL had filed recourses before the Administrative Court regarding the decisions of CySEC and the fines imposed upon it.

In October 2021 the Administrative Court ruled in favour of BOC PCL in relation to the fine of €160 thousand on the ground of flawed constitution of the CySEC Board. In May 2022, the Administrative Court (under a different bench) ruled against BOC PCL in relation to the fine of €950 thousand and found that the constitution of the CySEC Board was not flawed. Both cases are now pending on appeal. Relevant provisions were made since prior years for the said cases.

As at 31 December 2022 and 31 December 2021 there were no pending CySEC investigations against BOC PCL.

*Central Bank of Cyprus (CBC)*
The CBC has carried out certain investigations to assess compliance of BOC PCL under the anti-money laundering (AML) legislation which was in place during years 2008-2015 and 2015-2018.

Following the investigations and the on-site audit findings, the CBC concluded on 27 January 2021 that in the case of AML legislation 2008-2015 BOC PCL was in breach of certain articles of the said legislation and prima facie, failed to act in accordance with certain provisions of the AML/counter terrorism financing (CTF) Law and the CBC AML/CTF Directive. In October 2021 a fine of €277 thousand was imposed upon BOC PCL. BOC PCL paid a discounted fine and has filed a recourse against this decision and fine.

## 39. **Provisions for pending litigation, claims, regulatory and other matters** (continued)

### 39.2 **Regulatory matters** (continued)

Following the investigation and the on-site examination, the CBC concluded with regards to the files and transactions related to years 2015-2018, that BOC PCL was in breach of certain articles of the legislation. In December 2021, a fine of €790 thousand was imposed upon BOC PCL. BOC PCL paid a discounted fine and has filed a recourse against the decision and the fine.

The CBC had conducted an investigation in the past into BOC PCL's issuance of capital securities and concluded that BOC PCL breached certain regulatory requirements concerning the issuance of Convertible Capital Securities (Perpetual) in 2009, but not in relation to the CECS in 2011. The CBC had, in 2013, imposed a fine of €4 thousand upon BOC PCL, who filed a recourse. The Administrative Court cancelled both the CBC's decision and the fine that was imposed upon BOC PCL in a respective judgment dated in 2020. CBC decided to re-examine this matter and to re-open the investigation.

The CBC has decided that between the reporting date of 31 December 2014 and until the reporting date of 31 December 2017 BOC PCL was in breach of the requirements of the Directive on the Computation of Prudential Liability in Euro, of the Directive on the Prudential Liability in foreign currencies and of the CBC Directive on Governance and Management Arrangements in Credit Institutions. BOC PCL was given the opportunity to express its views with regards to the identified failures and the possible imposition of sanctions. A fine of €6 thousand has been imposed upon BOC PCL. The said fine has been paid.

*European Central Bank (ECB) Investigation*
In July 2021, BOC PCL was notified in writing by the ECB that, based on an investigation carried out by ECB's investigating unit, BOC PCL was in breach of an ECB decision of September 2016. The alleged breach related to the requirement imposed on BOC PCL to seek the prior approval of the ECB for any transfer of capital or liquidity to any subsidiary company. The Governing Council of the ECB informed BOC PCL in February 2022 of its decision to impose an administrative penalty of €575 thousand. BOC PCL proceeded with the payment of the fine.

*Commission for the Protection of Competition Investigation (CPC)*
In April 2014, following an investigation which began in 2010, CPC issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, BOC PCL and JCC Payment Systems Ltd (JCC), a card processing business currently 75% owned by BOC PCL. BOC PCL is expecting the final conclusion of this matter and has provided for it accordingly.

There was also an allegation concerning BOC PCL's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that BOC PCL (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017, the CPC imposed a fine of €18 million upon BOC PCL and BOC PCL filed a recourse against the decision and the fine. The payment of the fine had been stayed, pending the final outcome of the recourse. In June 2018, the Administrative Court accepted BOC PCL's position and cancelled the decision as well as the fine imposed upon BOC PCL. During 2018, the Attorney General has filed an appeal before the Supreme court with respect to such decision. Until a judgment is issued by the Supreme Court, the decision of the CPC remains annulled and there is no subsisting fine upon BOC PCL. The said appeal is still pending as at the year-end.

In 2019, the CPC initiated an ex officio investigation with respect to unfair contract terms and into the contractual arrangements/facilities offered by BOC PCL for the period from 2012 to 2016. To date no charges have been put forward nor have any formal proceedings been instituted against BOC PCL in this case. The Group is not aware of any further developments in this case.

*Association for the Protection of Bank Borrowers (CYPRODAT)*
CYPRODAT filed a complaint with the Commission for the Protection of Competition (CPC) in January 2022, claiming that BOC PCL and another bank have concerted in practices regarding the recent revisions of their commissions and charges. It also filed an application for an interim order which, if successful, would essentially freeze the implementation of the revised commissions and charges. The application for interim order was rejected by the CPC, however, the CPC reverted in April 2022 to inform BOC PCL of the initiation of an investigation with respect to this matter. This investigation is currently at a very early stage to predict its outcome.

## 39. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 39.2 Regulatory matters (continued)

*Commissioner for the Protection of Personal Data (CPPD)*
The CPPD has informed BOC PCL that based on the evidence submitted, there is a breach of Regulation 2016/679 on the protection of natural persons with regards to the processing of personal data and on the free movement of such data. The breach concerned the exchange of data under the sale of a portfolio of credit facilities which did not relate to the transaction. A fine of €17 thousand was imposed on BOC PCL. The said fine has already been paid and the matter has now been concluded.

BOC PCL informed the Commissioner on the procedures to follow to avoid such oversights in the future and the measures it has taken to remedy the specific breaches.

*Consumer Protection Service (CPS)*
In July 2017, CPS imposed a fine of €170 thousand upon BOC PCL after concluding an ex officio investigation regarding some terms in both BOC PCL's and Marfin Popular Bank's loan documentation, that were found to constitute unfair commercial practices. Decisions of the CPS (according to rulings of the Administrative Court) are not binding but merely an expression of opinion. BOC PCL has filed a recourse before the Administrative Court against this decision. The Administrative Court has issued its judgment in 2022 in favour of BOC PCL, and the CPS decision along with the fine have been cancelled. An appeal has been submitted by CPS with regards to this judgment, which is still pending as at the year-end.

In March 2020, BOC PCL has been served with an application by the director of CPS through the Attorney General seeking for an order of the court, with immediate effect, the result of which will be for BOC PCL to cease the use of a number of terms in the contracts of BOC PCL which are deemed to be unfair under the said order. The said terms relate to contracts that had been signed during 2006-2007. Furthermore, the said application seeks for an order ordering BOC PCL to undertake measures to remedy the situation. BOC PCL will take all necessary steps for the protection of its interests. This matter is still pending before the court as at the year-end.

In April 2021, the Director of the Consumer Protection Service filed an application for the issuance of a court order against BOC PCL, prohibiting the use of a number of contractual terms included in BOC PCL’s consumer contracts and the amendment of any such contracts (present and future) so as to remove such unfair terms. This matter is still pending before the court as at the year-end.

BOC PCL received a letter in July 2021 from CPS, initiating an ex officio investigation under the Distance Marketing of Financial Services to Consumers Law, with respect to the services and products of BOC PCL for which the contract between BOC PCL and the consumer is entered into online via BOC PCL’s website.

BOC PCL received another letter in July 2021 from CPS, initiating an investigation with respect to an alleged wrong commercial practice of BOC PCL of promoting a product.

The investigations are currently at a very early stage to predict their outcome.

*Cyprus Consumers’ Association (CCA)*
In March 2021, BOC PCL was served with an application filed by the CCA for the issuance of a court order prohibiting the use of a number of contractual terms included in BOC PCL’s consumer contracts and the amendment of any such contracts (present and future) so as to remove such terms deemed as unfair. The said contractual terms were determined as unfair pursuant to the decisions issued by the Consumer Protection Service of the Ministry of Energy, Commerce, Industry and Tourism against BOC PCL in 2016 and 2017. BOC PCL will take all necessary steps for the protection of its interests. This matter is still pending before the court as at the year-end.

The new Law on Consumer Protection brings under one umbrella the existing legislation on unfair contract terms and practices with some enhanced powers vested in the Consumer Protection Service, i.e. power to impose increased fines which are immediately payable. The new Law on Consumer Protection has a retrospective effect in that it also applies to all contracts/practices entered into and/or terminated prior to this law coming into effect as opposed to contracts/practices which are only entered into/adopted as from the date of publication of the new Law on Consumer Protection.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, is unknown.

## 39. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 39.2 Regulatory matters (continued)

*UK regulatory matters*
As part of the agreement for the sale of Bank of Cyprus UK Ltd, a liability with regards to UK regulatory matters remains an obligation for settlement by the Group. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management.

### 39.3 Other matters

Other matters include among others, provisions for various other open examination requests by governmental and other public bodies, legal matters and provisions for warranties and indemnities related to the disposal process of certain operations of the Group.

The provisions for pending litigation, claims, regulatory and other matters do not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries as these are included in 'Insurance liabilities'.

### 39.4 Provisions for pending litigation, claims, regulatory and other matters

| | Pending litigation and claims (Note 39.1) | Regulatory matters (Note 39.2) | Other matters (Note 39.3) | **Total** |
|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | **€000** |
| 1 January | 57,844 | 16,415 | 29,849 | **104,108** |
| Net increase in provisions including unwinding of discount | 15,627 | 950 | 19,017 | **35,594** |
| Utilisation of provisions | (6,314) | (1,357) | (24) | **(7,695)** |
| Release of provisions | (3,210) | (1,037) | (100) | **(4,347)** |
| Foreign exchange adjustments | - | (53) | - | **(53)** |
| **31 December** | **63,947** | **14,918** | **48,742** | **127,607** |
| Provisions expected to be settled within 12 months post reporting date | **26,991** | **-** | **2,804** | **29,795** |

| | Pending litigation and claims (Note 39.1) | Regulatory matters (Note 39.2) | Other matters (Note 39.3) | **Total** |
|---|---|---|---|---|
| **2021** | €000 | €000 | €000 | **€000** |
| 1 January | 67,439 | 12,305 | 43,871 | **123,615** |
| Net increase in provisions including unwinding of discount | 2,295 | 4,964 | 29,273 | **36,532** |
| Utilisation of provisions | (6,768) | (907) | (39,368) | **(47,043)** |
| Release of provisions | (5,122) | - | (3,927) | **(9,049)** |
| Foreign exchange adjustments | - | 53 | - | **53** |
| **31 December** | **57,844** | **16,415** | **29,849** | **104,108** |
| Provisions expected to be settled within 12 months post reporting date | **15,782** | **1,845** | **2,662** | **20,289** |

Provisions for pending litigation, claims, regulatory and other matters recorded in the consolidated income statement during the year ended 31 December 2022 amount to €11,880 thousand (2021: credit of €523 thousand, which included an amount of €841 thousand representing an amount recovered from plaintiffs directly recognised in the consolidated income statement during the year ended 31 December 2021).

Some information required by the IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation or the outcome of the negotiation in relation to provisions for warranties and indemnities related to the disposal process of certain operations of the Group.

## 39. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 39.4 Provisions for pending litigation, claims, regulatory and other matters (continued)

The net increase of provisions for pending litigation and claims for the year ended 31 December 2022 was primarily driven by a one-off charge of approximately €5,542 thousand in relation to a revised approach on estimating pending litigation fees. With regards to other matters, the provisions relating to the disposal process of certain of the Group's operations have been updated on the basis of the Group's assessment and to the extent those processes have progressed.

An increase by 5% in the probability of loss rate for pending litigation and claims (2021: 5%) with all other variables held constant, would lead to an increase in the actual provision by €2,821 thousand at 31 December 2022 (2021: increase by €7,097 thousand).

## 40. Contingent liabilities and commitments

As part of the services provided to its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the consolidated balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Group (Note 45.5).

### 40.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2022 amount to €10,647 thousand (2021: €18,678 thousand).

### 40.2. Contingent liabilities

The Group, as part of the disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Group may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been recognised, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable (Note 39.3).

## 41. Additional information on cash flow statement

### Non-cash transactions

*Repossession of collaterals*
During the year ended 31 December 2022, the Group acquired properties by taking possession of collaterals held as security for loans and advances to customers of €86,016 thousand (2021: €37,121 thousand).

*Recognition of RoU assets and lease liabilities*
During 2022 the Group recognised RoU assets and corresponding lease liabilities of €957 thousand (2021: €1,148 thousand).

*Disposal of Project Helix 2*
During the year ended 31 December 2021 and upon the completion of the disposal of Project Helix 2, the Group recognised an amount of €381,567 thousand in other financial assets, which represented the fair value of the deferred consideration receivable for the transaction (the 'DPP') on completion date. Please refer to Note 28 for further details.

## 41. Additional information on cash flow statement (continued)

### Net cash flow from operating activities - interest and dividends

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Interest paid | (88,671) | (119,183) |
| Interest received | 506,060 | 437,856 |
| Dividends received (Note 13) | 940 | 1,774 |
| | 418,329 | 320,447 |

### Changes in liabilities arising from financing activities

| | Funding from central banks (Note 30) | Debt securities in issue and Subordinated liabilities (Note 33) | Total |
|---|---|---|---|
| **2022** | €000 | €000 | €000 |
| 1 January | 2,969,600 | 644,928 | 3,614,528 |
| Cash flows | (979,389) | (66,797) | (1,046,186) |
| Other non-cash movements | (13,537) | 23,317 | 9,780 |
| **31 December** | 1,976,674 | 601,448 | 2,578,122 |
| **2021** | | | |
| 1 January | 994,694 | 272,152 | 1,266,846 |
| Cash flows | 1,968,081 | 333,339 | 2,301,420 |
| Other non-cash movements | 6,825 | 39,437 | 46,262 |
| **31 December** | 2,969,600 | 644,928 | 3,614,528 |

Further information relating to the change in lease liabilities is disclosed in Note 43.

## 42. Cash and cash equivalents

Cash and cash equivalents comprise:

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Cash and non-obligatory balances with central banks | 9,452,721 | 9,063,896 |
| Loans and advances to banks with original maturity less than three months | 133,432 | 191,314 |
| | 9,586,153 | 9,255,210 |

*Analysis of cash and balances with central banks and loans and advances to banks*

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Cash and non-obligatory balances with central banks | 9,452,721 | 9,063,896 |
| Obligatory balances with central banks (Note 19) | 114,537 | 166,987 |
| Total cash and balances with central banks (Note 19) | 9,567,258 | 9,230,883 |
| Loans and advances to banks with original maturity less than three months | 133,432 | 191,314 |
| Restricted loans and advances to banks | 71,379 | 100,318 |
| Total loans and advances to banks (Note 19) | 204,811 | 291,632 |

Restricted loans and advances to banks include collaterals under derivative transactions of €7,380 thousand (2021: €41,068 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

## 43. Leases

The Group is a lessee for commercial properties such as office and branch buildings. The basic terms for lease contracts relating to the branch network are primarily uniform, irrespective of lessors, with the non-cancellable rental period being two years. The Group has the option to extend the tenancy for four further periods of two years each. The Group has the right at any time after the expiry of the initial term to terminate the present rental agreement by providing notice (usually 3 or 6 months' notice) to the lessor. Depending on the terms agreed, the rent is adjusted at the end of each renewal period, according to the current rates of the area and considering the relevant legislation.

Office buildings are leased by the Group for the operation of administrative functions. The basic terms for new lease contracts and the current practice are substantially the same with those for lease contracts of branches.

During the year ended 31 December 2022 the lease term of existing building contracts was re-assessed using the assumptions as detailed in Note 5.13.

The carrying amounts of the Group's RoU assets and lease liabilities and the movement during the year ended 31 December 2022 and the year ended 31 December 2021 is presented in the table below:

| **2022** | **RoU assets (Note 25)** | **Lease Liabilities (Note 34)** |
|---|---|---|
| | **€000** | **€000** |
| 1 January | **33,581** | **(33,981)** |
| Depreciation charge for the year (Note 15) | **(6,767)** | **-** |
| New leases (Note 25) | **957** | **(772)** |
| Assets derecognised (Note 25) | **(1,460)** | **1,456** |
| Assets recognised following re-assessment (Note 25) | **3,922** | **(3,663)** |
| Interest expense (Note 8) | **-** | **(114)** |
| Cash outflows-payments | **-** | **6,884** |
| **31 December** | **30,233** | **(30,190)** |

| **2021** | **RoU assets (Note 25)** | **Lease Liabilities (Note 34)** |
|---|---|---|
| | **€000** | **€000** |
| 1 January | 46,070 | (45,955) |
| Depreciation charge for the year (Note 15) | (7,520) | - |
| New leases (Note 25) | 1,148 | (1,148) |
| Assets derecognised (Note 25) | (6,117) | 5,606 |
| Interest expense (Note 8) | - | (121) |
| Cash outflows-payments | - | 7,637 |
| **31 December** | **33,581** | **(33,981)** |

As at 31 December 2022 RoU assets comprised of leases of buildings of a carrying amount of €29,408 thousand (2021: €33,581 thousand) and computer hardware of a carrying amount of €825 thousand (2021: nil), and are presented within Property and equipment in Note 25.

Cash outflows relate to lease payments made during the year.

The analysis of lease liabilities based on remaining contractual maturity is disclosed in Note 47.

## 44. Analysis of assets and liabilities by expected maturity

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Less than one year** | **Over one year** | **Total** | Less than one year | Over one year | Total |
| **Assets** | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| Cash and balances with central banks | **9,452,721** | **114,537** | **9,567,258** | 9,063,896 | 166,987 | 9,230,883 |
| Loans and advances to banks | **133,432** | **71,379** | **204,811** | 191,314 | 100,318 | 291,632 |
| Derivative financial assets | **904** | **47,249** | **48,153** | 4,556 | 2,097 | 6,653 |
| Investments | **460,070** | **2,243,633** | **2,703,703** | 366,420 | 1,772,743 | 2,139,163 |
| Loans and advances to customers | **880,158** | **9,081,484** | **9,961,642** | 1,018,312 | 8,818,093 | 9,836,405 |
| Life insurance business assets attributable to policyholders | **15,486** | **526,835** | **542,321** | 14,111 | 537,686 | 551,797 |
| Prepayments, accrued income and other assets | **283,098** | **356,592** | **639,690** | 140,076 | 476,231 | 616,307 |
| Stock of property | **301,275** | **739,757** | **1,041,032** | 267,480 | 844,124 | 1,111,604 |
| Investment properties | **24,749** | **60,350** | **85,099** | 32,139 | 85,606 | 117,745 |
| Deferred tax assets | **37,909** | **189,612** | **227,521** | 37,909 | 227,572 | 265,481 |
| Property, equipment and intangible assets | **-** | **421,700** | **421,700** | - | 436,164 | 436,164 |
| Non-current assets and disposal groups held for sale | **-** | **-** | **-** | 358,951 | - | 358,951 |
| | **11,589,802** | **13,853,128** | **25,442,930** | 11,495,164 | 13,467,621 | 24,962,785 |
| **Liabilities** | | | | | | |
| Deposits by banks | **191,635** | **316,023** | **507,658** | 100,530 | 356,509 | 457,039 |
| Funding from central banks | **1,976,674** | **-** | **1,976,674** | 2,969,600 | - | 2,969,600 |
| Derivative financial liabilities | **10,538** | **5,631** | **16,169** | 4,830 | 27,622 | 32,452 |
| Customer deposits | **5,893,802** | **13,104,517** | **18,998,319** | 6,909,913 | 10,620,970 | 17,530,883 |
| Insurance liabilities | **110,197** | **569,755** | **679,952** | 91,758 | 644,443 | 736,201 |
| Accruals, deferred income and other liabilities and provisions for pending litigation, claims, regulatory and other matters | **303,618** | **210,842** | **514,460** | 273,989 | 192,145 | 466,134 |
| Debt securities in issue and subordinated liabilities | **-** | **601,448** | **601,448** | 38,561 | 606,367 | 644,928 |
| Deferred tax liabilities | **1,207** | **42,615** | **43,822** | 937 | 45,498 | 46,435 |
| | **8,487,671** | **14,850,831** | **23,338,502** | 10,390,118 | 12,493,554 | 22,883,672 |

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

Cash and balances with central banks are classified in the relevant time band based on the contractual maturity, with the exception of obligatory balances with central banks which are classified in the 'Over one year' time band.

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one.

## 44. Analysis of assets and liabilities by expected maturity (continued)

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'Over one year' time band. The Stage 3 Loans are classified in the 'Over one year' time band except cash flows from expected receipts which are included within time bands, according to historic amounts of receipts in the recent months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits maturing within one year is classified in the 'Over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

## 45. Risk management - Credit risk

In the ordinary course of its business the Group is exposed to credit risk which is monitored through various control mechanisms across all Group entities in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their credit obligations towards the Group.

The Credit Risk Management department in co-operation with the Credit Risk Control and Monitoring department set the Group's credit disbursement policies and monitor compliance with credit risk policies applicable to each business line and the quality of the Group's loans and advances portfolio through the timely credit risk assessment of customers. The credit exposures of related accounts are aggregated and monitored on a consolidated basis.

The Credit Risk Management department, in co-operation with the Credit Risk Control and Monitoring department, also safeguard the effective management of credit risk at all stages of the credit cycle, monitor the quality of decisions and processes and ensure that the credit sanctioning function is being properly managed.

The credit policies complemented by the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments of the customers' creditworthiness, their economic sector of activity and geographical concentration.

The credit risk exposure of the Group is diversified across the various industry sectors of the economy. Credit Risk Management department determines concentration limits for each industry sector, sets prohibited sectors and defines sectors which may require prior approval before credit applications are submitted.

The Market Risk department assesses the credit risk relating to exposures to Credit Institutions and Governments and other debt securities. Models and limits are presented to and approved by the Board of Directors, through the relevant authority based on the authorisation level limits.

The Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5 'Significant and other judgements, estimates and assumptions' of these Consolidated Financial Statements.

## 45. Risk management - Credit risk (continued)

### 45.1 Maximum exposure to credit risk and collateral and other credit enhancements

*Loans and advances to customers*
The Credit Risk Management department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on contracts of sale and personal and corporate guarantees.

The Group regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

*Off-balance sheet exposures*
The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee facilities (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

*Other financial instruments*
Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions. As at 31 December 2022, the majority of derivative exposures are covered by ISDA netting arrangements. A detailed analysis of derivative asset and liability exposures is available in Note 21. Information about the Group's collaterals under derivative transactions is provided in Note 42.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

*Maximum Exposure to credit risk*
The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

## 45. Risk management - Credit risk (continued)

### 45.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

| | | Fair value of collateral and credit enhancements held by the Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Maximum exposure to credit risk** | Cash | Securities | Letters of credit/ guarantee | Property | Other | Surplus collateral | Net collateral | **Net exposure to credit risk** |
| **2022** | **€000** | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Balances with central banks (Note 19) | **9,475,541** | - | - | - | - | - | - | - | **9,475,541** |
| Loans and advances to banks (Note 19) | **204,811** | 37,251 | - | - | - | - | - | 37,251 | **167,560** |
| FVPL debt securities (Note 20) | **8,968** | - | - | - | - | - | - | - | **8,968** |
| Debt securities classified at amortised cost and FVOCI (Note 20) | **2,499,894** | - | - | - | - | - | - | - | **2,499,894** |
| Derivative financial instruments (Note 21) | **48,153** | - | - | - | - | - | - | - | **48,153** |
| Loans and advances to customers (Note 23) | **9,961,642** | 505,950 | 556,487 | 133,305 | 15,799,569 | 273,789 | (8,231,543) | 9,037,557 | **924,085** |
| Debtors (Note 28) | **44,772** | - | - | - | - | - | - | - | **44,772** |
| Reinsurers' share of insurance contract liabilities (Note 28) | **58,303** | - | - | - | - | - | - | - | **58,303** |
| Deferred purchase payment consideration (Note 28) | **311,523** | - | - | - | - | - | - | - | **311,523** |
| Other assets (Note 28) | **59,327** | - | - | - | - | - | - | - | **59,327** |
| **On-balance sheet total** | **22,672,934** | **543,201** | **556,487** | **133,305** | **15,799,569** | **273,789** | **(8,231,543)** | **9,074,808** | **13,598,126** |
| *Contingent liabilities* | | | | | | | | | |
| Acceptances and endorsements | **5,175** | 276 | - | - | 4,886 | 13 | - | 5,175 | **-** |
| Guarantees | **651,219** | 99,554 | 1,039 | 4,630 | 197,912 | 384 | - | 303,519 | **347,700** |
| *Commitments* | | | | | | | | | |
| Documentary credits | **17,624** | 892 | 4 | 1,734 | 4,253 | 12 | - | 6,895 | **10,729** |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | **1,909,487** | 32,164 | 4,069 | 1,465 | 406,074 | 26,876 | - | 470,648 | **1,438,839** |
| **Off-balance sheet total** | **2,583,505** | **132,886** | **5,112** | **7,829** | **613,125** | **27,285** | **-** | **786,237** | **1,797,268** |
| | **25,256,439** | **676,087** | **561,599** | **141,134** | **16,412,694** | **301,074** | **(8,231,543)** | **9,861,045** | **15,395,394** |

## 45. Risk management - Credit risk (continued)

### 45.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

| | Maximum exposure to credit risk | Fair value of collateral and credit enhancements held by the Group | | | | | | | Net exposure to credit risk |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash | Securities | Letters of credit/ guarantee | Property | Other | Surplus collateral | Net collateral | |
| **2021** | **€000** | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Balances with central banks (Note 19) | **9,087,968** | - | - | - | - | - | - | - | **9,087,968** |
| Loans and advances to banks (Note 19) | **291,632** | 3,490 | - | - | - | - | - | 3,490 | **288,142** |
| FVPL debt securities (Note 20) | **6,034** | - | - | - | - | - | - | - | **6,034** |
| Debt securities classified at amortised cost and FVOCI (Note 20) | **1,924,354** | - | - | - | - | - | - | - | **1,924,354** |
| Derivative financial instruments (Note 21) | **6,653** | - | - | - | - | - | - | - | **6,653** |
| Loans and advances to customers (Note 23) | **9,836,405** | 476,390 | 587,309 | 140,995 | 15,150,658 | 265,660 | (7,781,292) | 8,839,720 | **996,685** |
| Loans and advances to customers classified as held for sale (Note 29) | **250,370** | 85 | 88 | 2,954 | 487,743 | 36,431 | (279,895) | 247,406 | **2,964** |
| Debtors (Note 28) | **36,540** | - | - | - | - | - | - | - | **36,540** |
| Reinsurers' share of insurance contract liabilities (Note 28) | **55,323** | - | - | - | - | - | - | - | **55,323** |
| Deferred purchase payment consideration (Note 28) | **299,766** | - | - | - | - | - | - | - | **299,766** |
| Other assets (Note 28) | **57,158** | - | - | - | - | - | - | - | **57,158** |
| **On-balance sheet total** | **21,852,203** | **479,965** | **587,397** | **143,949** | **15,638,401** | **302,091** | **(8,061,187)** | **9,090,616** | **12,761,587** |
| *Contingent liabilities* | | | | | | | | | |
| Acceptances and endorsements | **4,625** | 285 | - | - | 4,334 | 6 | - | 4,625 | **-** |
| Guarantees | **609,830** | 105,508 | 4,898 | 2,555 | 177,171 | 391 | - | 290,523 | **319,307** |
| *Commitments* | | | | | | | | | |
| Documentary credits | **11,264** | 729 | - | - | 5,488 | 19 | - | 6,236 | **5,028** |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | **1,950,665** | 28,541 | 1,006 | 1,182 | 420,337 | 18,976 | - | 470,042 | **1,480,623** |
| **Off-balance sheet total** | **2,576,384** | **135,063** | **5,904** | **3,737** | **607,330** | **19,392** | **-** | **771,426** | **1,804,958** |
| | **24,428,587** | **615,028** | **593,301** | **147,686** | **16,245,731** | **321,483** | **(8,061,187)** | **9,862,042** | **14,566,545** |

The contingent liabilities and commitments as at 31 December 2021 include exposures relating to loans and advances to customers classified as held for sale amounting to €1,286 thousand which relate to the Cyprus geographical area.

## 45. Risk management - Credit risk (continued)

### 45.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. The Group's Risk Appetite Statement may impose stricter concentration limits which are monitored by the Group.

The credit risk concentration, which is based on industry (economic activity) and business line, as well as the geographical concentration, is presented below.

The geographical analysis, for credit risk concentration purposes, is based on the Group's Country Risk Policy which is followed for monitoring the Group's exposures. Market and Liquidity Risk department is responsible for analysing the country risk of exposures. ALCO reviews the country risk of exposures on a quarterly basis and the Board, through its Risk Committee, reviews the country risk of exposures and any breaches of country risk limits on a regular basis and at least annually.

The table below presents the geographical concentration of loans and advances to customers by country of risk based on the country of residency for individuals and the country of registration for companies.

| **2022** | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | **Gross loans at amortised cost** |
|---|---|---|---|---|---|---|---|
| **By economic activity** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Trade | 922,093 | 384 | 37 | 2 | - | 33 | **922,549** |
| Manufacturing | 323,074 | 44,978 | - | - | - | 27,943 | **395,995** |
| Hotels and catering | 928,346 | 16,565 | 35,614 | - | - | 40,086 | **1,020,611** |
| Construction | 545,421 | 8,955 | 23 | 1,965 | 1 | 20 | **556,385** |
| Real estate | 978,708 | 94,823 | 1,866 | 5,848 | - | 45,769 | **1,127,014** |
| Private individuals | 4,496,081 | 11,146 | 73,120 | 401 | 19,103 | 54,584 | **4,654,435** |
| Professional and other services | 551,269 | 980 | 5,311 | 907 | 313 | 36,923 | **595,703** |
| Other sectors | 440,873 | 2 | - | - | 3 | 203,765 | **644,643** |
| | **9,185,865** | **177,833** | **115,971** | **9,123** | **19,420** | **409,123** | **9,917,335** |

| **2022** | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | **Gross loans at amortised cost** |
|---|---|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Corporate and Large corporate | 3,380,542 | 17,781 | 50 | - | 312 | 102 | **3,398,787** |
| International corporate | 139,813 | 152,143 | 42,327 | 5,850 | - | 345,175 | **685,308** |
| SMEs | 1,021,950 | 1,036 | 1,451 | 2,003 | - | 2,171 | **1,028,611** |
| Retail | | | | | | | |
| - housing | 3,272,253 | 2,450 | 36,839 | 219 | 186 | 18,687 | **3,330,634** |
| - consumer, credit cards and other | 885,558 | 856 | 576 | 5 | 1 | 900 | **887,896** |
| Restructuring | | | | | | | |
| - corporate | 66,151 | - | 869 | 869 | - | 63 | **67,952** |
| - SMEs | 48,027 | - | 432 | - | 158 | 384 | **49,001** |
| - retail housing | 70,283 | 104 | 1,841 | - | 291 | 114 | **72,633** |
| - retail other | 24,093 | 16 | 21 | - | 192 | 21 | **24,343** |
| Recoveries | | | | | | | |
| - corporate | 19,063 | - | 452 | - | 172 | 32 | **19,719** |
| - SMEs | 26,150 | - | 1,117 | - | 2,664 | 1,774 | **31,705** |
| - retail housing | 69,790 | 260 | 19,778 | 64 | 3,431 | 9,672 | **102,995** |
| - retail other | 31,967 | 12 | 1,265 | - | 49 | 337 | **33,630** |
| International banking services | 90,652 | 1,722 | 8,953 | 113 | 11,964 | 24,470 | **137,874** |
| Wealth management | 39,573 | 1,453 | - | - | - | 5,221 | **46,247** |
| | **9,185,865** | **177,833** | **115,971** | **9,123** | **19,420** | **409,123** | **9,917,335** |

## 45. Risk management - Credit risk (continued)

### 45.2 Credit risk concentration of loans and advances to customers (continued)

| 2021 | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | Gross loans at amortised cost |
|---|---|---|---|---|---|---|---|
| **By economic activity** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Trade | 977,703 | 505 | 122 | 60 | 3,351 | 146 | **981,887** |
| Manufacturing | 303,372 | 179 | - | - | 1,212 | 25,674 | **330,437** |
| Hotels and catering | 881,205 | 33,422 | 37,450 | - | - | 40,123 | **992,200** |
| Construction | 510,928 | 9,005 | 108 | 2,108 | 646 | 58 | **522,853** |
| Real estate | 959,891 | 125,123 | 1,950 | 11,443 | - | 49,293 | **1,147,700** |
| Private individuals | 4,379,843 | 9,185 | 121,260 | 1,057 | 37,315 | 73,997 | **4,622,657** |
| Professional and other services | 543,424 | 1,007 | 5,516 | 875 | 16,492 | 35,142 | **602,456** |
| Other sectors | 458,005 | 7 | 40 | - | 8 | 182,285 | **640,345** |
| | **9,014,371** | **178,433** | **166,446** | **15,543** | **59,024** | **406,718** | **9,840,535** |

| 2021 (restated) | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | Gross loans at amortised cost |
|---|---|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Corporate and Large corporate | 3,309,761 | 34,248 | 60 | 99 | 15,778 | 113 | **3,360,059** |
| International corporate | 126,808 | 134,531 | 44,132 | 11,742 | - | 320,730 | **637,943** |
| SMEs | 1,038,599 | 773 | 1,869 | 2,047 | 4,701 | 2,345 | **1,050,334** |
| Retail | | | | | | | |
| - housing | 3,068,097 | 3,466 | 47,742 | 629 | 4,513 | 26,819 | **3,151,266** |
| - consumer, credit cards and other | 884,231 | 1,101 | 760 | 126 | 237 | 2,232 | **888,687** |
| Restructuring | | | | | | | |
| - corporate | 60,446 | - | 526 | - | 32 | 1,213 | **62,217** |
| - SMEs | 69,501 | - | 338 | - | - | 340 | **70,179** |
| - retail housing | 80,730 | 152 | 3,058 | - | 392 | 752 | **85,084** |
| - retail other | 32,611 | 14 | 132 | - | 3 | 238 | **32,998** |
| Recoveries | | | | | | | |
| - corporate | 35,010 | - | - | 589 | 219 | 256 | **36,074** |
| - SMEs | 30,505 | - | 2,557 | 2 | 3,699 | 2,554 | **39,317** |
| - retail housing | 109,945 | 382 | 45,158 | 167 | 9,254 | 18,213 | **183,119** |
| - retail other | 54,959 | 30 | 4,356 | 4 | 1,557 | 1,304 | **62,210** |
| International banking services | 76,314 | 2,402 | 15,211 | 138 | 18,639 | 23,214 | **135,918** |
| Wealth management | 36,854 | 1,334 | 547 | - | - | 6,395 | **45,130** |
| | **9,014,371** | **178,433** | **166,446** | **15,543** | **59,024** | **406,718** | **9,840,535** |

The loans and advances to customers include lending exposures in Cyprus with collaterals in Greece with a carrying value as at 31 December 2022 of €106,701 thousand (2021: €100,039 thousand).

The loans and advances to customers reported within 'Other countries' as at 31 December 2022 include exposures of €2,6 million in Ukraine (2021: €3,6 million).

The loans and advances to customers reported within 'Other sectors' as at 31 December 2022 include exposures of €187 million for the Shipping sector (2021: €176 million).

## 45. Risk management - Credit risk (continued)

### 45.2 Credit risk concentration of loans and advances to customers (continued)

Economic activity, geographical and business line concentrations of Group loans and advances to customers at amortised cost classified as held for sale are presented in the table below. There were no loans and advances to customers held for sale as at 31 December 2022.

| 2021 | Cyprus | United Kingdom | Romania | Russia | Other countries | Gross loans at amortised cost |
|---|---|---|---|---|---|---|
| **By economic activity** | €000 | €000 | €000 | €000 | €000 | **€000** |
| Trade | 56,859 | - | 514 | - | - | **57,373** |
| Manufacturing | 24,688 | 1 | 110 | - | - | **24,799** |
| Hotels and catering | 14,794 | 1 | 278 | - | - | **15,073** |
| Construction | 28,226 | - | 231 | - | - | **28,457** |
| Real estate | 4,575 | - | 9,395 | - | - | **13,970** |
| Private individuals | 369,182 | 1,070 | 55 | 804 | 4,087 | **375,198** |
| Professional and other services | 27,866 | 2 | 1,466 | - | - | **29,334** |
| Other sectors | 11,476 | - | 77 | - | 32 | **11,585** |
| | **537,666** | **1,074** | **12,126** | **804** | **4,119** | **555,789** |

| 2021 (restated) | Cyprus | United Kingdom | Romania | Russia | Other countries | Gross loans at amortised cost |
|---|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | €000 | **€000** |
| International corporate | - | - | 10,441 | - | 32 | **10,473** |
| SMEs | - | - | 231 | - | - | **231** |
| Retail | | | | | | |
| - housing | 153 | - | - | - | - | **153** |
| - consumer, credit cards and other | 2 | - | - | - | - | **2** |
| Restructuring | | | | | | |
| - corporate | 374 | - | - | - | - | **374** |
| - SMEs | 5,301 | - | - | - | - | **5,301** |
| - retail housing | 23,769 | 501 | - | - | 34 | **24,304** |
| - retail other | 12,702 | - | - | - | - | **12,702** |
| Recoveries | | | | | | |
| - corporate | 8,090 | - | 1,111 | - | - | **9,201** |
| - SMEs | 17,923 | 1 | 343 | 766 | 381 | **19,414** |
| - retail housing | 238,791 | 566 | - | 38 | 3,210 | **242,605** |
| - retail other | 230,561 | 6 | - | - | 462 | **231,029** |
| | **537,666** | **1,074** | **12,126** | **804** | **4,119** | **555,789** |

## 45. Risk management - Credit risk (continued)

### 45.3 Analysis of loans and advances to customers , including loans and advances to customers held for sale

The movement of the gross loans and advances to customers at amortised cost by staging, including the loans and advances to customers classified as held for sale, is presented in the tables below:

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| 1 January | 7,418,695 | 1,701,255 | 1,047,802 | 228,572 | **10,396,324** |
| Transfers to stage 1 | 534,045 | (532,847) | (1,198) | - | **-** |
| Transfers to stage 2 | (409,997) | 479,829 | (69,832) | - | **-** |
| Transfers to stage 3 | (22,885) | (34,796) | 57,681 | - | **-** |
| Foreign exchange and other adjustments | (49) | - | 3,473 | - | **3,424** |
| Write offs | (788) | (683) | (169,303) | (22,774) | **(193,548)** |
| Interest accrued and other adjustments | 187,455 | 69,085 | 63,857 | 18,100 | **338,497** |
| New loans originated or purchased and drawdowns of existing facilities | 1,825,387 | 119,244 | 12,182 | 1,191 | **1,958,004** |
| Loans derecognised or repaid (excluding write offs) | (1,659,230) | (234,770) | (104,623) | (31,596) | **(2,030,219)** |
| Changes to contractual cash flows due to modifications | (5,286) | 2,669 | (4,627) | (704) | **(7,948)** |
| Disposal of Helix 3 and Sinope portfolios | (91) | (3,383) | (464,394) | (79,331) | **(547,199)** |
| **31 December** | **7,867,256** | **1,565,603** | **371,018** | **113,458** | **9,917,335** |

| 2021 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| 1 January | 6,615,026 | 2,145,329 | 2,502,487 | 479,016 | **11,741,858** |
| Transfers to stage 1 | 1,053,432 | (1,051,363) | (2,069) | - | **-** |
| Transfers to stage 2 | (575,203) | 657,895 | (82,692) | - | **-** |
| Transfers to stage 3 | (15,136) | (35,918) | 51,054 | - | **-** |
| Foreign exchange and other adjustments | 15 | 1 | 3,994 | (2) | **4,008** |
| Write offs | (518) | (843) | (252,976) | (40,657) | **(294,994)** |
| Interest accrued and other adjustments | 136,340 | 104,182 | 119,123 | 31,535 | **391,180** |
| New loans originated or purchased and drawdowns of existing facilities | 1,614,893 | 85,901 | 4,046 | 11,481 | **1,716,321** |
| Loans other than Helix 2 portfolio derecognised or repaid (excluding write offs) | (1,399,395) | (190,449) | (192,441) | (76,968) | **(1,859,253)** |
| Changes to contractual cash flows due to modifications | (2,351) | 3,461 | (14,942) | (2,119) | **(15,951)** |
| Disposal of Helix 2 portfolio | (8,408) | (16,941) | (1,087,782) | (173,714) | **(1,286,845)** |
| **31 December** | **7,418,695** | **1,701,255** | **1,047,802** | **228,572** | **10,396,324** |

For revolving facilities, overdrafts and credit cards the net positive change in balance by stage excluding write-offs is reported in 'New loans originated' and the net negative change is reported in 'Loans derecognised or repaid'.

The analysis of gross loans and advances to customers at amortised cost by staging and by business line concentration is included in Note 23.

## 45. Risk management - Credit risk (continued)

### 45.3 Analysis of loans and advances to customers , including loans and advances to customers held for sale (continued)

The movement of gross loans and advances to customers at amortised cost, in the Corporate and Large corporate, International corporate and Retail business lines in Cyprus (the country where the loans are managed), including loans and advances to customers classified as held for sale, are presented in the tables below:

| **2022** | **Corporate and Large corporate** | **International corporate** | **Retail** |
|---|---|---|---|
| | **€000** | **€000** | **€000** |
| 1 January | 3,344,281 | 632,223 | 4,040,108 |
| Transfers (out of)/in business line | (23,764) | 1,489 | (5,291) |
| Write offs | (14) | - | (1,866) |
| Interest accrued | 104,907 | 29,842 | 86,701 |
| New loans originated or purchased | 859,742 | 179,815 | 679,538 |
| Loans other than held for sale portfolios derecognised or repaid (excluding write offs) | (889,683) | (157,457) | (581,009) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 3,006 | (604) | 349 |
| **31 December** | **3,398,475** | **685,308** | **4,218,530** |

| **2021 (restated)** | Corporate and Large corporate | International corporate | Retail |
|---|---|---|---|
| | €000 | €000 | €000 |
| 1 January | 3,194,024 | 599,619 | 3,844,562 |
| Transfers in/(out of) business line | 36,728 | 108 | (2,808) |
| Write offs | (284) | (1,827) | (1,704) |
| Interest accrued | 101,964 | 29,040 | 89,885 |
| New loans originated or purchased | 756,016 | 150,866 | 628,425 |
| Loans other than held for sale portfolios derecognised or repaid (excluding write offs) | (743,523) | (144,665) | (519,142) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | (644) | (918) | 890 |
| **31 December** | **3,344,281** | **632,223** | **4,040,108** |

*Loans and advances to customers classified as held for sale*

The following table presents the Group's gross loans and advances to customers at amortised cost classified as held for sale as at 31 December 2021, by staging and business line concentration which is included in the movement table above.

| **2021** | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | **€000** |
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | - | 2,132 | 476,538 | 96,209 | **574,879** |
| Residual fair value adjustment on initial recognition | - | (57) | (2,079) | (16,954) | **(19,090)** |
| **Gross loans at amortised cost** | **-** | **2,075** | **474,459** | **79,255** | **555,789** |

## 45. Risk management - Credit risk (continued)

### 45.3 Analysis of loans and advances to customers , including loans and advances to customers held for sale (continued)

| 2021 (restated)<br>By business line | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|---|
| International corporate | - | - | 10,470 | 3 | **10,473** |
| SMEs | - | - | 231 | - | **231** |
| Retail | | | | | |
| - housing | - | - | 153 | - | **153** |
| - consumer, credit cards and other | - | - | 2 | - | **2** |
| Restructuring | | | | | |
| - corporate | - | - | 374 | - | **374** |
| - SMEs | - | 718 | 3,842 | 741 | **5,301** |
| - retail housing | - | 804 | 22,113 | 1,387 | **24,304** |
| - retail other | - | 553 | 11,543 | 606 | **12,702** |
| Recoveries | | | | | |
| - corporate | - | - | 8,507 | 694 | **9,201** |
| - SMEs | - | - | 17,653 | 1,761 | **19,414** |
| - retail housing | - | - | 204,956 | 37,649 | **242,605** |
| - retail other | - | - | 194,615 | 36,414 | **231,029** |
| | **-** | **2,075** | **474,459** | **79,255** | **555,789** |

### 45.4 Credit quality of loans and advances to customers based on the internal credit rating

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for the key portfolios of BOC PCL. For the purposes of credit scoring, these portfolios are Corporate, Retail and SMEs. Corporate and SME portfolios include legal entities. Retail portfolio includes individuals.

Scoring models use internal and external data to assess and 'score' borrowers and their credit quality, in order to provide further input on managing limits for existing loans and collection activities. The data is specific to the borrower but additional data which could affect the borrower's behaviour is also used.

Credit score is one of the factors employed on new clients and management of existing clients. The credit score of the borrower is used to assess the credit quality for each independent acquisition or account management action, leading to an automated decision or guidance for an adjudicator. Credit scoring enhances the credit decision quality and facilitates risk-based pricing where feasible.

Borrower score defines the rating of the borrower from a range of 1-8 where 8 is defined as defaulted. The 12 months probability of default (PDs) are calculated per rating. The following table presents weighted PD per risk level's rating for corporate, retail and SME exposures.

Unrated corporate exposures are assessed using the Group's in-house behavioural scorecard model for corporate legal entities. Unrated retail exposures include qualifying revolving facilities without scoring (i.e. prepaid cards) and other revolving facilities (i.e. financial guarantees) which are assigned a more generic curve. Similarly unrated SME exposures are assigned a more generic segment curve.

New customers for corporate and SME legal entities and new lending to retail individuals are separately disclosed since a time span of seven months is necessary in order to provide an accurate rating.

The portfolios weighted PDs per rating are presented below.

| **2022** | **12-month PD** | | |
|---|---|---|---|
| **Rating** | **Corporate legal entities**<br>**%** | **Retail individuals**<br>**%** | **SME legal entities**<br>**%** |
| 1 | 1.19 | 0.66 | 0.34 |
| 2 | 1.87 | 0.64 | 0.66 |
| 3 | 2.02 | 1.39 | 1.89 |
| 4 | 2.96 | 2.64 | 7.23 |
| 5 | 4.48 | 4.92 | 9.46 |
| 6 | 4.97 | 8.58 | 14.87 |
| 7 | 10.15 | 24.02 | 30.77 |

## 45. Risk management - Credit risk (continued)

### 45.4 Credit quality of loans and advances to customers based on the internal credit rating (continued)

| 2021 | 12-month PD | | |
|---|---|---|---|
| Rating | Corporate legal entities % | Retail individuals % | SME legal entities % |
| 1 | 1.38 | 0.80 | 0.36 |
| 2 | 2.20 | 0.79 | 0.75 |
| 3 | 2.37 | 1.68 | 2.22 |
| 4 | 3.42 | 3.24 | 7.70 |
| 5 | 5.32 | 6.24 | 12.96 |
| 6 | 5.82 | 10.04 | 17.87 |
| 7 | 11.89 | 27.14 | 36.63 |

Lower rating exposures demonstrate a better capacity to meet financial commitments, with lower probability of default, whereas higher rating exposures require varying degrees of special attention and default risk is of greater concern.

The tables below show the gross loans and advances to customers at amortised cost which are managed in Cyprus, using the corporate legal entities, SMEs legal entities and retail individuals definition as per the internal rating of BOC PCL.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Corporate legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 512,071 | 5,576 | **517,647** | 371,648 | 9,550 | **381,198** |
| Rating 2 | 235,753 | 5,858 | **241,611** | 124,963 | 1,120 | **126,083** |
| Rating 3 | 762,397 | 94,105 | **856,502** | 689,030 | 43,870 | **732,900** |
| Rating 4 | 565,591 | 43,690 | **609,281** | 729,502 | 119,522 | **849,024** |
| Rating 5 | 592,963 | 207,831 | **800,794** | 578,247 | 289,389 | **867,636** |
| Rating 6 | 94,690 | 292,027 | **386,717** | 167,752 | 307,445 | **475,197** |
| Rating 7 | 32,481 | 152,941 | **185,422** | 8,680 | 129,996 | **138,676** |
| Unrated | 190,253 | 18,602 | **208,855** | 120,016 | 106,826 | **226,842** |
| New customers | 427,647 | 37,570 | **465,217** | 386,841 | 49,745 | **436,586** |
| | **3,413,846** | **858,200** | **4,272,046** | **3,176,679** | **1,057,463** | **4,234,142** |
| Total Stage 3 and POCI | | | **144,903** | | | **191,972** |
| | | | **4,416,949** | | | **4,426,114** |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 895,267 | 42,998 | **938,265** | 795,577 | 37,566 | **833,143** |
| Rating 2 | 1,066,411 | 29,995 | **1,096,406** | 965,269 | 34,373 | **999,642** |
| Rating 3 | 845,204 | 72,153 | **917,357** | 756,588 | 53,053 | **809,641** |
| Rating 4 | 592,998 | 99,388 | **692,386** | 562,838 | 81,779 | **644,617** |
| Rating 5 | 197,743 | 78,861 | **276,604** | 224,332 | 80,133 | **304,465** |
| Rating 6 | 64,234 | 77,217 | **141,451** | 114,346 | 105,725 | **220,071** |
| Rating 7 | 17,820 | 80,259 | **98,079** | 27,568 | 101,290 | **128,858** |
| Unrated | - | 2,660 | **2,660** | - | 2,681 | **2,681** |
| New customers | 268,676 | 13,017 | **281,693** | 292,088 | 15,808 | **307,896** |
| | **3,948,353** | **496,548** | **4,444,901** | **3,738,606** | **512,408** | **4,251,014** |
| Total Stage 3 and POCI | | | **288,998** | | | **462,865** |
| | | | **4,733,899** | | | **4,713,879** |

## 45. Risk management - Credit risk (continued)

### 45.4 Credit quality of loans and advances to customers based on the internal credit rating (continued)

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **SMEs legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 161,411 | 33,555 | **194,966** | 183,001 | 12,159 | **195,160** |
| Rating 2 | 175,934 | 71,421 | **247,355** | 181,836 | 29,316 | **211,152** |
| Rating 3 | 32,209 | 29,154 | **61,363** | 43,425 | 16,911 | **60,336** |
| Rating 4 | 9,432 | 25,850 | **35,282** | 15,454 | 18,447 | **33,901** |
| Rating 5 | 6,656 | 7,842 | **14,498** | 8,260 | 16,252 | **24,512** |
| Rating 6 | 5,889 | 10,307 | **16,196** | 5,793 | 8,019 | **13,812** |
| Rating 7 | 3,431 | 5,347 | **8,778** | 3,249 | 6,496 | **9,745** |
| Unrated | 49,172 | 24,648 | **73,820** | - | 18,198 | **18,198** |
| New customers | 60,704 | 2,731 | **63,435** | 62,129 | 3,511 | **65,640** |
| | **504,838** | **210,855** | **715,693** | **503,147** | **129,309** | **632,456** |
| Total Stage 3 and POCI | | | **48,479** | | | **45,560** |
| | | | **764,172** | | | **678,016** |

*Loans and advances to customers classified as held for sale*

An analysis of gross loans and advances to customers classified as held for sale as at 31 December 2021, as per the internal rating system of BOC PCL is disclosed in the tables below.

| | **2021** | | |
|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** |
| **Corporate legal entities** | €000 | €000 | **€000** |
| Total Stage 3 and POCI | | | **64,759** |
| | | | **64,759** |

| | **2021** | | |
|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** |
| Rating 4 | - | 111 | **111** |
| Rating 6 | - | 98 | **98** |
| Rating 7 | - | 1,464 | **1,464** |
| | **-** | **1,673** | **1,673** |
| Total Stage 3 and POCI | | | **400,861** |
| | | | **402,534** |

| | **2021** | | |
|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** |
| **SMEs legal entities** | €000 | €000 | **€000** |
| Rating 2 | - | 55 | **55** |
| Rating 4 | - | 326 | **326** |
| Rating 5 | - | 1 | **1** |
| Rating 7 | - | 20 | **20** |
| | **-** | **402** | **402** |
| Total Stage 3 and POCI | | | **87,849** |
| | | | **88,251** |

## 45. Risk management - Credit risk (continued)

### 45.5 Contingent liabilities and commitments

The Group enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

#### 45.5.1 Contingent liabilities

An analysis of changes in the outstanding nominal amount of exposures and the corresponding ECLs are disclosed in the tables below:

| **2022** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Exposures** | | | | |
| 1 January | 432,463 | 136,324 | 45,668 | **614,455** |
| Transfers to stage 1 | 30,378 | (30,378) | - | **-** |
| Transfers to stage 2 | (20,997) | 22,353 | (1,356) | **-** |
| Transfers to stage 3 | (9) | (3,288) | 3,297 | **-** |
| Net increase/(decrease) | 67,351 | (14,385) | (11,027) | **41,939** |
| **31 December** | **509,186** | **110,626** | **36,582** | **656,394** |

| **2021** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Exposures** | | | | |
| 1 January | 208,410 | 363,019 | 52,756 | **624,185** |
| Transfers to stage 1 | 151,638 | (151,638) | - | **-** |
| Transfers to stage 2 | (18,674) | 22,983 | (4,309) | **-** |
| Transfers to stage 3 | (143) | (1,548) | 1,691 | **-** |
| Net increase/(decrease) | 91,232 | (96,492) | (4,470) | **(9,730)** |
| **31 December** | **432,463** | **136,324** | **45,668** | **614,455** |

| **2022** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 20 | 124 | 21,613 | **21,757** |
| Transfers to stage 1 | 7 | (7) | - | **-** |
| Transfers to stage 2 | (16) | 16 | - | **-** |
| Transfers to stage 3 | - | (27) | 27 | **-** |
| Charge/(credit) for the year* | 108 | 4 | (4,627) | **(4,515)** |
| **31 December** | **119** | **110** | **17,013** | **17,242** |
| Individually assessed | 77 | 71 | 17,013 | **17,161** |
| Collectively assessed | 42 | 39 | - | **81** |
| | **119** | **110** | **17,013** | **17,242** |

## 45. Risk management - Credit risk (continued)

## 45.5 Contingent liabilities and commitments (continued)

### 45.5.1 Contingent liabilities (continued)

| 2021 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 42 | 695 | 18,370 | **19,107** |
| Transfers to stage 1 | 14 | (14) | - | **-** |
| Transfers to stage 2 | (13) | (273) | 286 | **-** |
| (Credit)/charge for the year* | (23) | (284) | 2,957 | **2,650** |
| **31 December** | **20** | **124** | **21,613** | **21,757** |
| Individually assessed | 12 | 32 | 21,613 | **21,657** |
| Collectively assessed | 8 | 92 | - | **100** |
| | **20** | **124** | **21,613** | **21,757** |

* The credit for the year mainly relates to assets derecognised in the year (2021: Charge for the year mainly relates to changes to inputs and net exposure).

The credit quality of contingent liabilities as per the internal rating system of BOC PCL is disclosed in the table below.

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| **Corporate legal entities** | Stage 1 €000 | Stage 2 €000 | **Total €000** | Stage 1 €000 | Stage 2 €000 | **Total €000** |
| Rating 1 | 105,872 | 9 | **105,881** | 121,750 | 1,223 | **122,973** |
| Rating 2 | 16,342 | - | **16,342** | 13,327 | 93 | **13,420** |
| Rating 3 | 48,934 | 388 | **49,322** | 45,371 | 670 | **46,041** |
| Rating 4 | 34,218 | 7,980 | **42,198** | 25,513 | 2,185 | **27,698** |
| Rating 5 | 76,807 | 5,764 | **82,571** | 42,183 | 31,791 | **73,974** |
| Rating 6 | 7,845 | 4,118 | **11,963** | 11,720 | 3,809 | **15,529** |
| Rating 7 | 31 | 4,507 | **4,538** | 1,410 | 432 | **1,842** |
| Unrated | 22,127 | 13,622 | **35,749** | 29,487 | 60,193 | **89,680** |
| New customers | 89,653 | 2 | **89,655** | 75,832 | - | **75,832** |
| | **401,829** | **36,390** | **438,219** | **366,593** | **100,396** | **466,989** |
| Total Stage 3 | | | **9,424** | | | **35,207** |
| | | | **447,643** | | | **502,196** |

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| **SME legal entities** | Stage 1 €000 | Stage 2 €000 | **Total €000** | Stage 1 €000 | Stage 2 €000 | **Total €000** |
| Rating 1 | 30,526 | 38 | **30,564** | 30,241 | 78 | **30,319** |
| Rating 2 | 8,552 | 747 | **9,299** | 7,949 | 1,217 | **9,166** |
| Rating 3 | 867 | 489 | **1,356** | 1,592 | 223 | **1,815** |
| Rating 4 | 280 | 263 | **543** | 365 | 111 | **476** |
| Rating 5 | 58 | 94 | **152** | 42 | 6 | **48** |
| Rating 6 | 1 | 1 | **2** | 3 | - | **3** |
| Rating 7 | 552 | - | **552** | 554 | 32 | **586** |
| Unrated | 19,630 | 56,891 | **76,521** | - | 21,316 | **21,316** |
| New customers | 46,891 | 738 | **47,629** | 25,124 | 65 | **25,189** |
| | **107,357** | **59,261** | **166,618** | **65,870** | **23,048** | **88,918** |
| Total Stage 3 | | | **26,571** | | | **9,781** |
| | | | **193,189** | | | **98,699** |

## 45. Risk management - Credit risk (continued)

### 45.5 Contingent liabilities and commitments (continued)

#### 45.5.1 Contingent liabilities (continued)

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Unrated | - | 14,975 | **14,975** | - | 12,880 | **12,880** |
| | **-** | **14,975** | **14,975** | **-** | **12,880** | **12,880** |
| Total Stage 3 | | | **587** | | | **680** |
| | | | **15,562** | | | **13,560** |

#### 45.5.2 Commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

| **2022** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| **Exposure** | | | | |
| 1 January | 1,497,081 | 412,570 | 52,278 | **1,961,929** |
| Transfers to stage 1 | 159,869 | (159,518) | (351) | **-** |
| Transfers to stage 2 | (117,601) | 118,493 | (892) | **-** |
| Transfers to stage 3 | (276) | (1,205) | 1,481 | **-** |
| Net increase/(decrease) | 25,891 | (51,226) | (9,483) | **(34,818)** |
| **31 December** | **1,564,964** | **319,114** | **43,033** | **1,927,111** |

| **2021** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| **Exposure** | | | | |
| 1 January | 1,146,962 | 775,164 | 79,031 | **2,001,157** |
| Transfers to stage 1 | 417,291 | (416,743) | (548) | **-** |
| Transfers to stage 2 | (52,799) | 52,799 | - | **-** |
| Transfers to stage 3 | (358) | (1,165) | 1,523 | **-** |
| Net (decrease)/increase | (14,015) | 2,515 | (27,728) | **(39,228)** |
| **31 December** | **1,497,081** | **412,570** | **52,278** | **1,961,929** |

| **2022** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 19 | 169 | - | **188** |
| Transfers to stage 1 | 4 | (4) | - | **-** |
| Transfers to stage 2 | (18) | 18 | - | **-** |
| Charge/(credit) for the year* | 85 | (86) | - | **(1)** |
| **31 December** | **90** | **97** | **-** | **187** |
| Individually assessed | 68 | 60 | - | **128** |
| Collectively assessed | 22 | 37 | - | **59** |
| | **90** | **97** | **-** | **187** |

## 45. **Risk management - Credit risk** (continued)

## 45.5 **Contingent liabilities and commitments** (continued)

### 45.5.2 **Commitments** (continued)

| **2021** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 126 | 425 | - | **551** |
| Transfers to stage 1 | 9 | (9) | - | **-** |
| Transfers to stage 2 | (32) | 63 | (31) | **-** |
| (Credit)/charge for the year* | (84) | (310) | 31 | **(363)** |
| **31 December** | **19** | **169** | **-** | **188** |
| Individually assessed | 7 | 80 | - | **87** |
| Collectively assessed | 12 | 89 | - | **101** |
| | **19** | **169** | **-** | **188** |

*The charge/(credit) for the year mainly relates to changes to inputs.

The credit quality of commitments, as per the internal rating system of BOC PCL is disclosed in the table below.

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| **Corporate legal entities** | Stage 1 €000 | Stage 2 €000 | **Total €000** | Stage 1 €000 | Stage 2 €000 | **Total €000** |
| Rating 1 | 219,598 | 13,914 | **233,512** | 256,764 | 8,352 | **265,116** |
| Rating 2 | 50,364 | 3,921 | **54,285** | 41,484 | 3,397 | **44,881** |
| Rating 3 | 83,187 | 5,579 | **88,766** | 128,429 | 10,627 | **139,056** |
| Rating 4 | 99,083 | 5,387 | **104,470** | 58,322 | 10,107 | **68,429** |
| Rating 5 | 68,953 | 8,220 | **77,173** | 58,708 | 82,198 | **140,906** |
| Rating 6 | 8,154 | 6,905 | **15,059** | 12,239 | 16,047 | **28,286** |
| Rating 7 | 1,492 | 10,390 | **11,882** | 154 | 1,627 | **1,781** |
| Unrated | 60,960 | 46,201 | **107,161** | 26,441 | 103,918 | **130,359** |
| New customers | 72,297 | 10,903 | **83,200** | 26,296 | 20,402 | **46,698** |
| | **664,088** | **111,420** | **775,508** | **608,837** | **256,675** | **865,512** |
| Total Stage 3 | | | **14,763** | | | **22,553** |
| | | | **790,271** | | | **888,065** |

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| **SME legal entities** | Stage 1 €000 | Stage 2 €000 | **Total €000** | Stage 1 €000 | Stage 2 €000 | **Total €000** |
| Rating 1 | 189,826 | 75,681 | **265,507** | 234,443 | 22,597 | **257,040** |
| Rating 2 | 37,089 | 20,238 | **57,327** | 40,913 | 17,522 | **58,435** |
| Rating 3 | 9,437 | 5,941 | **15,378** | 12,254 | 3,988 | **16,242** |
| Rating 4 | 1,923 | 2,992 | **4,915** | 3,027 | 2,900 | **5,927** |
| Rating 5 | 1,322 | 2,155 | **3,477** | 2,270 | 1,748 | **4,018** |
| Rating 6 | 303 | 370 | **673** | 235 | 523 | **758** |
| Rating 7 | 177 | 136 | **313** | 77 | 262 | **339** |
| Unrated | 58,779 | 29,414 | **88,193** | - | 17,465 | **17,465** |
| New customers | 13,683 | 980 | **14,663** | 11,073 | 459 | **11,532** |
| | **312,539** | **137,907** | **450,446** | **304,292** | **67,464** | **371,756** |
| Total Stage 3 | | | **23,916** | | | **24,001** |
| | | | **474,362** | | | **395,757** |

## 45. **Risk management - Credit risk** (continued)

### 45.5 **Contingent liabilities and commitments** (continued)

### 45.5.2 **Commitments** (continued)

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 279,094 | 17,526 | **296,620** | 244,760 | 29,865 | **274,625** |
| Rating 2 | 124,039 | 8,630 | **132,669** | 115,852 | 10,877 | **126,729** |
| Rating 3 | 63,108 | 10,745 | **73,853** | 55,987 | 12,732 | **68,719** |
| Rating 4 | 32,345 | 8,307 | **40,652** | 30,358 | 7,642 | **38,000** |
| Rating 5 | 9,304 | 6,516 | **15,820** | 8,553 | 8,621 | **17,174** |
| Rating 6 | 3,464 | 5,395 | **8,859** | 4,095 | 6,756 | **10,851** |
| Rating 7 | 770 | 2,690 | **3,460** | 711 | 2,984 | **3,695** |
| Unrated | - | 7,437 | **7,437** | - | 7,926 | **7,926** |
| New customers | 76,213 | 2,541 | **78,754** | 123,636 | 1,028 | **124,664** |
| | **588,337** | **69,787** | **658,124** | **583,952** | **88,431** | **672,383** |
| Total Stage 3 | | | **4,354** | | | **5,724** |
| | | | **662,478** | | | **678,107** |

**45. Risk management - Credit risk** (continued)

**45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale**

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

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| 1 January | 15,457 | 29,383 | 478,796 | 67,781 | **591,417** |
| Transfers to stage 1 | 9,737 | (9,561) | (176) | - | **-** |
| Transfers to stage 2 | (1,009) | 9,857 | (8,848) | - | **-** |
| Transfers to stage 3 | (106) | (833) | 939 | - | **-** |
| Impact on transfer between stages during the year* | (7,575) | (3,186) | 15,387 | (31) | **4,595** |
| Foreign exchange and other adjustments | (1) | - | 3,553 | - | **3,552** |
| Write offs | (788) | (683) | (169,303) | (22,774) | **(193,548)** |
| Interest (provided) not recognised in the income statement | - | - | 16,687 | 427 | **17,114** |
| New loans originated or purchased* | 3,877 | - | - | 35 | **3,912** |
| Loans derecognised or repaid (excluding write offs)* | (964) | (2,700) | (16,943) | (2,714) | **(23,321)** |
| Write offs* | 736 | 485 | 11,744 | 995 | **13,960** |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations* | 5,009 | 2,677 | 47,617 | 14,616 | **69,919** |
| Changes to contractual cash flows due to modifications not resulting in derecognition* | (2,085) | 2,226 | (3,818) | (391) | **(4,068)** |
| Disposal of Helix 3 and Sinope portfolios | - | (624) | (262,062) | (42,404) | **(305,090)** |
| **31 December** | **22,288** | **27,041** | **113,573** | **15,540** | **178,442** |
| Individually assessed | 9,066 | 13,401 | 56,957 | 10,664 | **90,088** |
| Collectively assessed | 13,222 | 13,640 | 56,616 | 4,876 | **88,354** |
| | **22,288** | **27,041** | **113,573** | **15,540** | **178,442** |

* Individual components of the 'Impairment net of reversals on loans and advances to customers' (Note16).

The impairment loss for the year ended 31 December 2022 was driven mainly from additional net credit losses of €28 million recorded on NPEs as part of the Group's de-risking activities and additional ECL charge of €16 million following the new overlays introduced in 2022, as explained in Note 5.2.

**45. Risk management - Credit risk** (continued)

**45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale** (continued)

| 2021 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| 1 January | 22,619 | 49,127 | 1,376,412 | 204,477 | **1,652,635** |
| Transfers to stage 1 | 18,228 | (17,818) | (410) | - | **-** |
| Transfers to stage 2 | (2,361) | 15,825 | (13,464) | - | **-** |
| Transfers to stage 3 | (430) | (1,462) | 1,892 | - | **-** |
| Impact on transfer between stages during the year* | (11,600) | (7,088) | 4,781 | (605) | **(14,512)** |
| Foreign exchange and other adjustments | - | - | 2,362 | - | **2,362** |
| Write offs | (518) | (843) | (252,895) | (40,657) | **(294,913)** |
| Interest (provided) not recognised in the income statement | - | - | 41,812 | 6,658 | **48,470** |
| New loans originated or purchased* | 4,152 | - | - | 233 | **4,385** |
| Loans derecognised or repaid (excluding write offs)* | (632) | (464) | (26,886) | (770) | **(28,752)** |
| Write offs* | 281 | 318 | 6,282 | (19) | **6,862** |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations* | (10,259) | 2,943 | 66,324 | 10,295 | **69,303** |
| Changes to contractual cash flows due to modifications not resulting in derecognition* | (826) | 1,647 | (1,889) | (2,262) | **(3,330)** |
| Disposal of Helix 2 portfolio | (3,197) | (12,802) | (725,525) | (109,569) | **(851,093)** |
| **31 December** | **15,457** | **29,383** | **478,796** | **67,781** | **591,417** |
| Individually assessed | 6,661 | 14,476 | 78,045 | 7,427 | **106,609** |
| Collectively assessed | 8,796 | 14,907 | 400,751 | 60,354 | **484,808** |
| | **15,457** | **29,383** | **478,796** | **67,781** | **591,417** |

* Individual components of the 'Impairment net of reversals on loans and advances to customers' (Note16).

## 45. Risk management - Credit risk (continued)

### 45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The analysis of credit losses of loans and advances to customers, including the loans and advances to customers held for sale, by business line is presented in the table below:

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 13,997 | 12,096 | 28,951 | 1,498 | **56,542** |
| International corporate | 567 | 5 | 36 | 4 | **612** |
| SMEs | 2,444 | 3,009 | 1,998 | 214 | **7,665** |
| Retail | | | | | |
| - housing | 2,378 | 2,738 | 5,146 | 398 | **10,660** |
| - consumer, credit cards and other | 2,552 | 4,794 | 5,763 | 1,020 | **14,129** |
| Restructuring | | | | | |
| - corporate | 22 | 2,133 | 7,481 | 9,005 | **18,641** |
| - SMEs | 184 | 706 | 9,157 | 741 | **10,788** |
| - retail housing | 19 | 682 | 9,222 | 347 | **10,270** |
| - retail other | 29 | 536 | 7,309 | 513 | **8,387** |
| Recoveries | | | | | |
| - corporate | - | - | 7,917 | 387 | **8,304** |
| - SMEs | - | - | 11,096 | 288 | **11,384** |
| - retail housing | - | - | 11,937 | 651 | **12,588** |
| - retail other | - | - | 7,494 | 465 | **7,959** |
| International banking services | 73 | 332 | 65 | 5 | **475** |
| Wealth management | 23 | 10 | 1 | 4 | **38** |
| | **22,288** | **27,041** | **113,573** | **15,540** | **178,442** |

| 2021 (restated) | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 8,432 | 11,972 | 38,831 | 1,481 | **60,716** |
| International corporate | 903 | 1,390 | 7,871 | 3 | **10,167** |
| SMEs | 1,653 | 3,242 | 8,151 | 276 | **13,322** |
| Retail | | | | | |
| - housing | 1,615 | 2,868 | 7,045 | 317 | **11,845** |
| - consumer, credit cards and other | 2,674 | 4,434 | 8,223 | 1,002 | **16,333** |
| Restructuring | | | | | |
| - corporate | 40 | 1,397 | 5,015 | 2,292 | **8,744** |
| - SMEs | 79 | 1,139 | 13,970 | 884 | **16,072** |
| - retail housing | 3 | 708 | 20,005 | 775 | **21,491** |
| - retail other | 14 | 1,049 | 16,583 | 806 | **18,452** |
| Recoveries | | | | | |
| - corporate | - | - | 21,374 | 3,518 | **24,892** |
| - SMEs | - | - | 26,338 | 2,045 | **28,383** |
| - retail housing | - | - | 152,596 | 27,732 | **180,328** |
| - retail other | - | - | 152,691 | 26,643 | **179,334** |
| International banking services | 33 | 1,181 | 102 | 6 | **1,322** |
| Wealth management | 11 | 3 | 1 | 1 | **16** |
| | **15,457** | **29,383** | **478,796** | **67,781** | **591,417** |

**45. Risk management - Credit risk** (continued)

**45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale** (continued)

The movement of the ECL allowance for the loans and advances to customers in the Corporate and Large corporate, International corporate and Retail business lines in Cyprus (the country where the loans are managed), including ECL allowance for loans and advances to customers held for sale, is presented in the table below:

| | **Corporate and Large corporate** | **International corporate** | **Retail** |
|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** |
| 1 January | 45,541 | 2,323 | 28,215 |
| Transfer in/(out of) the business line | 278 | (67) | (1,812) |
| Write offs | (14) | - | (1,866) |
| Interest (provided) not recognised in the income statement | 936 | 3 | 445 |
| New loans originated or purchased | 1,950 | 164 | 1,261 |
| Loans derecognised or repaid (excluding write offs) | (5,699) | (448) | (818) |
| Write offs | 9 | - | 1,294 |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations | 11,672 | (548) | 2,800 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | (673) | - | (203) |
| Impact on transfer between stages during the year | 2,359 | (815) | (4,527) |
| **31 December** | **56,359** | **612** | **24,789** |

| | **Corporate and Large corporate** | **International corporate** | **Retail** |
|---|---|---|---|
| **2021 (restated)** | **€000** | **€000** | **€000** |
| 1 January | 42,511 | 151 | 45,730 |
| Transfer in/(out of) the business line | (607) | 1,773 | (4,440) |
| Write offs | (1,929) | (182) | (1,704) |
| Interest (provided) not recognised in the income statement | 2,648 | - | 934 |
| New loans originated or purchased | 1,396 | 369 | 1,847 |
| Loans derecognised or repaid (excluding write offs) | (1,624) | - | (971) |
| Write offs | (7) | - | 449 |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations | 209 | 213 | (6,779) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 10,580 | - | (1,097) |
| Impact on transfer between stages during the year | (7,636) | (1) | (5,754) |
| **31 December** | **45,541** | **2,323** | **28,215** |

Credit losses of loans and advances to customers as at 31 December 2021 include credit losses relating to loans and advances to customers classified as held for sale as presented in the table below:

| | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | **€000** |
| 31 December 2021 | - | 710 | 262,706 | 42,003 | **305,419** |

During the year ended 31 December 2022 the total non-contractual write-offs recorded by the Group amounted to €134,767 thousand (2021: €234,378 thousand). The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2022 and that are still subject to enforcement activity is €972,621 thousand (2021: €970,568 thousand).

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

## 45. Risk management - Credit risk (continued)

### 45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

For Stage 3 customers, the base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional favourable and adverse scenarios. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 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 held for sale the Group takes into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL.

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

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

*Sensitivity analysis*
The Group has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents more than 99% of the total loan portfolio of the Group (excluding the loans and advances to customers classified as held for sale) with reference date 31 December 2022 and 2021.

The Group has applied sensitivity analysis to the below parameters and the impact on the ECL, for both individually and collectively assessed ECL calculations, is presented in the table below:

| | **Increase/(decrease) on ECL for loans and advances to customers at amortised cost** | |
|---|---|---|
| | **2022** | 2021 |
| | **€000** | €000 |
| Increase the adverse weight by 5% and decrease the favourable weight by 5% | **1,999** | 3,610 |
| Decrease the adverse weight by 5% and increase the favourable weight by 5% | **(2,077)** | (3,626) |
| Increase the expected recovery period by 1 year | **4,955** | 8,000 |
| Decrease the expected recovery period by 1 year | **(4,344)** | (7,421) |
| Increase the collateral realisation haircut by 5% | **11,335** | 19,063 |
| Decrease the collateral realisation haircut by 5% | **(8,930)** | (16,906) |
| Increase in the PDs of stages 1 and 2 by 20% | **7,367** | 8,190 |
| Decrease in the PDs of stages 1 and 2 by 20% | **(6,964)** | (8,011) |

## 45. Risk management - Credit risk (continued)

### 45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The increase/(decrease) on ECL, for loans and advances to customers at amortised cost, is further analysed, per stage, in the table below:

| **2022** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| Increase the adverse weight by 5% and decrease the favourable weight by 5% | 175 | 321 | 1,503 | **1,999** |
| Decrease the adverse weight by 5% and increase the favourable weight by 5% | (139) | (435) | (1,503) | **(2,077)** |
| Increase the expected recovery period by 1 year | 552 | 1,590 | 2,813 | **4,955** |
| Decrease the expected recovery period by 1 year | (495) | (1,374) | (2,475) | **(4,344)** |
| Increase the collateral realisation haircut by 5% | 1,036 | 2,747 | 7,552 | **11,335** |
| Decrease the collateral realisation haircut by 5% | (842) | (2,021) | (6,067) | **(8,930)** |
| Increase in the PDs of stages 1 and 2 by 20%* | 406 | 6,961 | - | **7,367** |
| Decrease in the PDs of stages 1 and 2 by 20%* | (2,217) | (4,747) | - | **(6,964)** |

| **2021** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| Increase the adverse weight by 5% and decrease the favourable weight by 5% | 384 | 413 | 2,813 | **3,610** |
| Decrease the adverse weight by 5% and increase the favourable weight by 5% | (351) | (461) | (2,814) | **(3,626)** |
| Increase the expected recovery period by 1 year | 434 | 1,402 | 6,164 | **8,000** |
| Decrease the expected recovery period by 1 year | (401) | (1,323) | (5,697) | **(7,421)** |
| Increase the collateral realisation haircut by 5% | 1,215 | 3,742 | 14,106 | **19,063** |
| Decrease the collateral realisation haircut by 5% | (1,004) | (3,266) | (12,636) | **(16,906)** |
| Increase in the PDs of stages 1 and 2 by 20%* | 2,687 | 5,503 | - | **8,190** |
| Decrease in the PDs of stages 1 and 2 by 20%* | (2,882) | (5,129) | - | **(8,011)** |

*The impact on the ECL also includes the transfer between stages of the loans and advances to customers following the increase/ decrease in the PD.

## 45. Risk management - Credit risk (continued)

### 45.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The sensitivity analysis performed on the collateral realisation haircut and its impact on the ECL by business line is presented in the table below:

| | **Increase the collateral realisation haircut by 5%** | **Decrease the collateral realisation haircut by 5%** | Increase the collateral realisation haircut by 5% | Decrease the collateral realisation haircut by 5% |
|---|---|---|---|---|
| | **2022** | **2022** | 2021 (restated) | 2021 (restated) |
| | **€000** | **€000** | €000 | €000 |
| Corporate and Large corporate | **2,322** | **(1,478)** | 2,605 | (2,284) |
| International corporate | **68** | **(30)** | 954 | (964) |
| SMEs | **487** | **(409)** | 724 | (627) |
| Retail | | | | |
| - housing | **1,260** | **(1,085)** | 1,838 | (1,545) |
| - consumer, credit cards and other | **527** | **(457)** | 718 | (653) |
| Restructuring | | | | |
| - corporate | **1,253** | **(1,333)** | 551 | (558) |
| - SMEs | **628** | **(633)** | 956 | (858) |
| - retail housing | **824** | **(738)** | 1,079 | (972) |
| - retail other | **324** | **(287)** | 458 | (420) |
| Recoveries | | | | |
| - corporate | **720** | **(665)** | 748 | (760) |
| - SMEs | **948** | **(819)** | 1,114 | (940) |
| - retail housing | **1,378** | **(690)** | 5,541 | (4,889) |
| - retail other | **540** | **(255)** | 1,503 | (1,233) |
| International banking services | **53** | **(49)** | 273 | (202) |
| Wealth management | **3** | **(2)** | 1 | (1) |
| | **11,335** | **(8,930)** | 19,063 | (16,906) |

### 45.7 Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2022 and 2021 by taking possession of collateral held as security, was as follows:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Residential property | **12,414** | 10,100 |
| Commercial and other property | **70,238** | 27,021 |
| | **82,652** | 37,121 |

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Group as at 31 December 2022, including any expenses capitalised during the year, amounted to €1,087,556 thousand (2021: €1,274,961 thousand).

The disposals of repossessed assets during 2022 (including those that were classified as held for sale prior to their disposal) amounted to €249,252 thousand (2021: €209,961 thousand).

## 45. Risk management - Credit risk (continued)

### 45.8 Currency concentration of loans and advances to customers

The following table presents the currency concentration of the Group's loans and advances at amortised cost.

| Gross loans at amortised cost | **2022**<br>**€000** | 2021<br>€000 |
|---|---|---|
| Euro | **9,456,220** | 9,294,950 |
| US Dollar | **334,663** | 372,263 |
| British Pound | **89,244** | 93,369 |
| Russian Rouble | **312** | 16,329 |
| Swiss Franc | **35,430** | 61,336 |
| Other currencies | **1,466** | 2,288 |
| | **9,917,335** | 9,840,535 |

*Loans and advances to customers classified as held for sale*

The following table presents the currency concentration of the Group's loans and advances at amortised cost classified as held for sale.

| Gross loans at amortised cost | 2021<br>€000 |
|---|---|
| Euro | 533,190 |
| US Dollar | 700 |
| British Pound | 230 |
| Swiss Franc | 18,184 |
| Other currencies | 3,485 |
| | 555,789 |

### 45.9 Modified loans and advances to customers

Modified loans and advances to customers are those loans where the original contractual terms of the loans

i. have been modified due to financial difficulties of the borrower and are considered as forborne/restructured (as explained in Note 45.10), and
ii. have been modified due to commercial renegotiations and such loans are considered as non-forborne.

Customers classified as Stage 2 and Stage 3 as at 31 December 2021, that had facilities modified (in a prior or the current period), and are classified as Stage 1 as at 31 December 2022 amount to €281,391 thousand (2021: €540,712 thousand) and their corresponding ECL amount to €895 thousand (2021: €1,268 thousand).

Previously classified Stage 2 and Stage 3 customers (with a carrying amount as at 31 December 2021 of €34,788 thousand (2020: €109,881 thousand)) that had facilities modified during the year and are classified as Stage 1 at 31 December 2022 amount to €30,012 thousand (2021: €110,303 thousand) and their corresponding ECL amount to €51 thousand (2021: €233 thousand). Their related modification loss amounted to €177 thousand (2021: €433 thousand).

Stage 2 and Stage 3 loans that were forborne during the year amounted to €228,804 thousand (2021: €707,190 thousand). Their related modification loss amounted to €4,669 thousand (2021: €23,243 thousand).

Facilities that reverted to Stage 2 and Stage 3 having once cured during the year amount to €33,784 thousand (2021: €126,972 thousand) and their corresponding ECL amounts to €1,055 thousand (2021: €5,250 thousand) as at 31 December 2022.

## 45. Risk management - Credit risk (continued)

### 45.10 Forbearance/Restructuring

Forborne loans are those loans that have been modified because the borrower is considered unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower with the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group.

Forborne/restructured loans and advances are those facilities for which the Group has modified the repayment programme (e.g. provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest).

For an account to qualify for forbearance/restructuring it must meet certain criteria including the viability of the customer. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be allowed in specific situations in response to legal or regulatory requirements.

Forbearance/restructuring activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Forbearance/restructuring options may be of a short or long-term nature or a combination thereof. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

i. Suspension of capital or capital and interest: granting to the borrower a grace period in the payment of capital (i.e. during this period only interest is paid) or capital and interest, for a specific period of time.
ii. Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
iii. Arrears and/or interest capitalisation: capitalisation of the arrears and of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.

Long-term restructuring solutions can include the following:

i. Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
ii. Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
iii. Sale of Assets: Part of the restructuring can be the agreement with the borrower for immediate or over time sale of assets (mainly real estate) to reduce borrowing.
iv. Modification of existing terms of previous decisions: In the context of the new sustainable settlement/restructuring solution, review any terms of previous decisions that may not be met.
v. Consolidation/refinancing of existing facilities: In cases where the borrower maintains several separate loans with different collaterals, these can be consolidated and a new repayment schedule can be set and the new loan can be secured with all existing collaterals.
vi. Hard Core Current Account Limit: In such cases a loan with a longer repayment may be offered to replace / reduce the current account limit.
vii. Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured to a sustainable repayment program. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro rata (based on the actual repayment of the sustainable part) or restructured.

## 45. Risk management - Credit risk (continued)

### 45.10 Forbearance/Restructuring (continued)

viii. Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
ix. Liquidation Collateral: An agreement between BOC PCL and a borrower for the voluntary sale of mortgaged assets, for partial or full repayment of the debt.
x. Currency Conversion: This solution is provided to match the credit facility currency and the borrower's income currency.
xi. Additional Financing: This solution can be granted, simultaneously with the restructuring of the existing credit facilities of the borrower, to cover any financing gap.
xii. Partial or total write off: This solution corresponds to the Group forfeiting the right to legally recover part or the whole of the amount of debt outstanding by the borrower.
xiii. Debt/equity swaps: debt restructuring that allows partial or full repayment of the debt in exchange of obtaining an equivalent amount of equity by the Group, with the remaining debt right sized to the cash flows of the borrower to allow repayment. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
xiv. Debt/asset swaps: agreement between the Group and the borrower to voluntarily transfer the mortgaged asset or other immovable property to the Group, to partially or fully repay the debt. Any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.

The loans forborne continue to be classified as Stage 3 in the case they are performing forborne exposures under probation for which additional forbearance measures are extended, or performing forborne exposures, previously classified as NPEs that present more than 30 days past due within the probation period.

Forbearance modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements, are not regarded as sufficient to categorise the facility as credit impaired, as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

The forbearance characteristic contributes in two specific ways for the calculation of lifetime ECL for each individual facility. Specifically, it is taken into consideration in the scorecard development where if this characteristic is identified as statistically significant it affects negatively the rating of each facility. It also contributes in the construction through the cycle probability of default and cure curves, where when feasible a specific curve for the forborne products is calculated and assigned accordingly.

The below table presents the movement of the Group's forborne loans and advances to customers measured at amortised cost including those classified as held for sale. The forborne loans and advances to customers classified as held for sale as at 31 December 2022 amounts to nil (2021: €245,452 thousand).

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| 1 January | **1,469,182** | 1,981,825 |
| New loans and advances forborne in the year | **130,547** | 741,116 |
| Loans no longer classified as forborne and repayments | **(241,739)** | (484,039) |
| Write off of forborne loans and advances | **(77,357)** | (110,471) |
| Interest accrued on forborne loans and advances | **57,795** | 72,292 |
| Foreign exchange adjustments | **3,115** | 1,907 |
| Derecognition of Helix 2 portfolio | **-** | (733,448) |
| Derecognition of Helix 3 and Sinope portfolios | **(235,245)** | - |
| **31 December** | **1,106,298** | 1,469,182 |

The forborne loans classification is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. The criteria are set out in the EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

## 45. Risk management - Credit risk (continued)

### 45.10 Forbearance/Restructuring (continued)

The below tables present the Group's forborne loans and advances to customers by staging, economic activity and business line classification excluding those classified as held for sale, as well as ECL allowances and tangible collateral held for such forborne loans.

| | 2022 €000 | 2021 €000 |
|---|---|---|
| Stage 1 | - | 6,883 |
| Stage 2 | 857,356 | 828,849 |
| Stage 3 | 215,730 | 348,385 |
| POCI | 33,212 | 39,613 |
| | 1,106,298 | 1,223,730 |

*Fair value of collateral*

| | 2022 €000 | 2021 €000 |
|---|---|---|
| Stage 1 | - | 6,751 |
| Stage 2 | 818,138 | 782,843 |
| Stage 3 | 172,501 | 275,882 |
| POCI | 30,188 | 37,824 |
| | 1,020,827 | 1,103,300 |

The fair value of collateral presented above has been computed to the extent that the collateral mitigates credit risk.

*Credit risk concentration*

| **By economic activity** | 2022 €000 | 2021 €000 |
|---|---|---|
| Trade | 41,038 | 52,714 |
| Manufacturing | 17,080 | 16,217 |
| Hotels and catering | 282,460 | 259,534 |
| Construction | 245,695 | 164,871 |
| Real estate | 145,840 | 196,522 |
| Private individuals | 279,934 | 414,463 |
| Professional and other services | 76,135 | 96,714 |
| Other sectors | 18,116 | 22,695 |
| | 1,106,298 | 1,223,730 |

## 45. Risk management - Credit risk (continued)

### 45.10 Forbearance/Restructuring (continued)

| By business line | 2022 €000 | 2021 (restated) €000 |
|---|---|---|
| Corporate and Large corporate | **684,382** | 629,270 |
| International corporate | **-** | 4,904 |
| SMEs | **74,474** | 106,362 |
| Retail | | |
| - housing | **85,319** | 138,753 |
| - consumer, credit cards and other | **28,944** | 47,006 |
| Restructuring | | |
| - corporate | **47,840** | 21,836 |
| - SMEs | **21,002** | 35,890 |
| - retail housing | **53,316** | 66,608 |
| - retail other | **14,402** | 20,561 |
| Recoveries | | |
| - corporate | **6,279** | 19,796 |
| - SMEs | **15,635** | 14,382 |
| - retail housing | **49,240** | 81,318 |
| - retail other | **13,983** | 22,478 |
| International banking services | **11,482** | 14,159 |
| Wealth management | **-** | 407 |
| | **1,106,298** | 1,223,730 |

| 2022<br>By business line | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | Total €000 |
|---|---|---|---|---|---|
| Corporate and Large corporate | - | 628,104 | 50,688 | 5,590 | **684,382** |
| SMEs | - | 72,727 | 869 | 878 | **74,474** |
| Retail | | | | | |
| - housing | - | 62,312 | 20,502 | 2,505 | **85,319** |
| - consumer, credit cards and other | - | 20,207 | 7,653 | 1,084 | **28,944** |
| Restructuring | | | | | |
| - corporate | - | 31,637 | 6,060 | 10,143 | **47,840** |
| - SMEs | - | 7,240 | 11,918 | 1,844 | **21,002** |
| - retail housing | - | 19,912 | 30,649 | 2,755 | **53,316** |
| - retail other | - | 4,924 | 9,021 | 457 | **14,402** |
| Recoveries | | | | | |
| - corporate | - | - | 5,837 | 442 | **6,279** |
| - SMEs | - | - | 14,449 | 1,186 | **15,635** |
| - retail housing | - | - | 44,191 | 5,049 | **49,240** |
| - retail other | - | - | 12,705 | 1,278 | **13,983** |
| International banking services | - | 10,293 | 1,188 | 1 | **11,482** |
| | **-** | **857,356** | **215,730** | **33,212** | **1,106,298** |

## 45. Risk management - Credit risk (continued)

### 45.10 Forbearance/Restructuring (continued)

| **2021 (restated)**<br>**By business line** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 6,461 | 559,311 | 63,498 | - | **629,270** |
| International corporate | - | - | 4,904 | - | **4,904** |
| SMEs | - | 96,654 | 5,736 | 3,972 | **106,362** |
| Retail | | | | | |
| - housing | 381 | 97,548 | 38,276 | 2,548 | **138,753** |
| - consumer, credit cards and other | 41 | 29,578 | 16,181 | 1,206 | **47,006** |
| Restructuring | | | | | |
| - corporate | - | 6,941 | 8,882 | 6,013 | **21,836** |
| - SMEs | - | 8,705 | 23,410 | 3,775 | **35,890** |
| - retail housing | - | 13,500 | 49,746 | 3,362 | **66,608** |
| - retail other | - | 5,047 | 15,088 | 426 | **20,561** |
| Recoveries | | | | | |
| - corporate | - | - | 17,503 | 2,293 | **19,796** |
| - SMEs | - | - | 12,402 | 1,980 | **14,382** |
| - retail housing | - | - | 70,951 | 10,367 | **81,318** |
| - retail other | - | - | 19,313 | 3,165 | **22,478** |
| International banking services | - | 11,565 | 2,495 | 99 | **14,159** |
| Wealth management | - | - | - | 407 | **407** |
| | **6,883** | **828,849** | **348,385** | **39,613** | **1,223,730** |

*ECL allowance*

| | **2022**<br>**€000** | 2021<br>€000 |
|---|---|---|
| Stage 1 | **-** | 8 |
| Stage 2 | **13,939** | 13,349 |
| Stage 3 | **68,557** | 120,345 |
| POCI | **11,259** | 10,218 |
| | **93,755** | 143,920 |

**45. Risk management - Credit risk** (continued)

**45.11 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation**

*Balances with central banks and loans and advances to banks*
Balances with central banks and loans and advances to banks are analysed by Moody's Investors Service rating as follows:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Aaa - Aa3 | **84,543** | 105,759 |
| A1 - A3 | **25,249** | 84,629 |
| Baa1 - Baa3 | **36,544** | 3,333 |
| Ba1 - Ba3 | **9,491,444** | 9,095,864 |
| B1 - B3 | **358** | 19,160 |
| Caa - C | **2,192** | 6,078 |
| Unrated | **1,715** | 37,474 |
| Other receivables from banks | **38,307** | 27,303 |
| | **9,680,352** | 9,379,600 |

All balances with central banks and loans and advances to banks are classified as Stage 1 (Note 19).

*Debt securities*
Investments in debt securities are analysed as follows:

| | **2022** | 2021 |
|---|---|---|
| *Moody's rating* | **€000** | €000 |
| Aaa - Aa3 | **1,109,706** | 836,676 |
| A1 - A3 | **397,831** | 254,956 |
| Baa1 - Baa3 | **88,422** | 78,301 |
| Ba1 - Ba3 | **886,419** | 735,663 |
| B1 - B3 | **14,243** | - |
| Unrated | **12,241** | 24,792 |
| | **2,508,862** | 1,930,388 |
| *Issued by:* | | |
| - Cyprus government | **832,113** | 735,661 |
| - Other governments | **425,460** | 311,108 |
| - Banks and other corporations | **1,251,289** | 883,619 |
| | **2,508,862** | 1,930,388 |
| *Classified as:* | | |
| Investments mandatorily measured at FVPL | **8,968** | 6,034 |
| Investments at FVOCI | **453,775** | 733,080 |
| Investments at amortised cost | **2,046,119** | 1,191,274 |
| | **2,508,862** | 1,930,388 |

## 45. Risk management - Credit risk (continued)

### 45.11 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

| | FVOCI | Amortised cost |
|---|---|---|
| | Stage 1 | Stage 1 |
| **2022** | €000 | €000 |
| Aaa - Aa3 | 85,199 | 1,015,539 |
| A1 - A3 | 41,947 | 355,884 |
| Baa1 - Baa3 | 856 | 87,566 |
| Ba1 - Ba3 | 325,773 | 560,646 |
| B1 - B3 | - | 14,243 |
| Unrated | - | 12,241 |
| | **453,775** | **2,046,119** |

| | FVOCI | Amortised cost | | |
|---|---|---|---|---|
| | Stage 1 | Stage 1 | Stage 2 | Total |
| **2021** | €000 | €000 | €000 | €000 |
| Aaa - Aa3 | 235,297 | 595,845 | - | 595,845 |
| A1 - A3 | 57,757 | 197,199 | - | 197,199 |
| Baa1 - Baa3 | 31,318 | 46,983 | - | 46,983 |
| Ba1 - Ba3 | 408,708 | 278,491 | 48,463 | 326,954 |
| Unrated | - | 24,293 | - | 24,293 |
| | **733,080** | **1,142,811** | **48,463** | **1,191,274** |

## 46. Risk management - Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, foreign currency exchange rates, property and security prices. The Market and Liquidity Risk department is responsible for monitoring the risk on financial instruments resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk from counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

**Interest rate risk**

Interest rate risk refers to the current or prospective risk to Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis where the assets, liabilities and off-balance sheet items, are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated. Interest rate risk is managed through a 1 Year Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the net interest income. There are different limits for the Euro and the US Dollar.

*Sensitivity analysis*
The table below sets out the impact on the Group’s net interest income, over a one-year period, from reasonably possible changes in the interest rates of the Euro and the US Dollar, being the main currencies, using the assumption of the prevailing market risk policy for the current and the comparative year:

## 46. Risk management - Market risk (continued)

| Currency | Interest Rate Scenario | Impact on Net Interest Income in €000 | |
|---|---|---|---|
| | | 2022 (60 bps for Euro and 75 bps for US Dollar) | 2021 (50 bps for Euro and 60 bps for US Dollar) |
| All | Parallel up | 73,126 | 35,677 |
| All | Parallel down | (77,043) | (28,235) |
| All | Steepening | (56,569) | (19,944) |
| All | Flattening | 59,657 | 25,546 |
| All | Short up | 70,381 | 33,182 |
| All | Short down | (73,896) | (28,169) |
| | | | |
| Euro | Parallel up | 71,829 | 34,484 |
| Euro | Parallel down | (75,343) | (26,230) |
| Euro | Steepening | (55,812) | (17,866) |
| Euro | Flattening | 59,132 | 25,153 |
| Euro | Short up | 69,180 | 32,200 |
| Euro | Short down | (72,216) | (25,208) |
| | | | |
| US Dollar | Parallel up | 1,298 | 1,193 |
| US Dollar | Parallel down | (1,700) | (2,005) |
| US Dollar | Steepening | (757) | (2,078) |
| US Dollar | Flattening | 525 | 393 |
| US Dollar | Short up | 1,202 | 982 |
| US Dollar | Short down | (1,680) | (2,961) |

**46. Risk management - Market risk** (continued)

The above sensitivities incorporate assumptions on the pass-through change of time deposits.

The table below sets out the impact on the Group's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines.

| Currency | Interest Rate Scenario | Impact on Equity in €000 | |
|---|---|---|---|
| | | 2022 (60 bps for Euro and 75 bps for US Dollar) | 2021 (50 bps for Euro and 60 bps for US Dollar) |
| All | Parallel up | 31,739 | (14,964) |
| All | Parallel down | (68,581) | 23,698 |
| All | Steepening | 11,884 | (9,300) |
| All | Flattening | 369 | 8,986 |
| All | Short up | 27,212 | 3,616 |
| All | Short down | (35,032) | 6,273 |
| Euro | Parallel up | 54,878 | (18,080) |
| Euro | Parallel down | (59,502) | 60,603 |
| Euro | Steepening | 23,018 | (7,836) |
| Euro | Flattening | 526 | 17,714 |
| Euro | Short up | 47,696 | 2,234 |
| Euro | Short down | (28,040) | 26,386 |
| US Dollar | Parallel up | 8,599 | 6,232 |
| US Dollar | Parallel down | (9,079) | (6,604) |
| US Dollar | Steepening | 750 | (1,464) |
| US Dollar | Flattening | 212 | 258 |
| US Dollar | Short up | 6,727 | 4,998 |
| US Dollar | Short down | (6,992) | (6,920) |

The aggregation of the impact on equity was performed as per the EBA guidelines by adding the negative and 50% of the positive impact of each scenario.

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at FVPL (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified at FVOCI.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

| *Parallel change in interest rates ((increase)/decrease in net interest income)* | Impact on profit/loss before tax | Impact on equity |
|---|---|---|
| **2022** | **€000** | **€000** |
| +0.75% for US Dollar<br>+0.6% for Euro<br>+0.4% for British Pound | **(466)** | **(394)** |
| -0.75% for US Dollar<br>-0.6% for Euro<br>-0.4% for British Pound | **466** | **386** |

**46. Risk management - Market risk** (continued)

| *Parallel change in interest rates ((increase)/decrease in net interest income)* | **Impact on profit/loss before tax** | **Impact on equity** |
|---|---|---|
| | **€000** | **€000** |
| **2021** | | |
| +0.6% for US Dollar<br>+0.5% for Euro<br>+1.0% for British Pound | 1,219 | (739) |
| -0.6% for US Dollar<br>-0.5% for Euro<br>-1.0% for British Pound | (782) | 739 |

*Interest rate benchmark reform*
The LIBOR and the EURIBOR (collectively referred to as IBORs) are the subject of international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or cease to exist entirely or have other consequences that cannot be predicted.

Regarding LIBOR reform, regulators and industry working groups have identified alternative rates to transition to. On 5 March, 2021 the Financial Conduct Authority (FCA) has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative of the underlying market they intended to measure:

i. immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1 week and 2 month US dollar settings; and
ii. immediately after 30 June 2023, in the case of the remaining US dollar settings.

In October 2021, the European Commission designated a statutory replacement rate for certain settings of CHF LIBOR.

On 16 November 2021, the Financial Conduct Authority of the United Kingdom (UK FCA) confirmed that they would permit the temporary use of the synthetic GBP and JPY LIBOR in all legacy LIBOR contracts, other than cleared derivatives that have not been changed at or ahead of end 31 December 2021.

In September 2022, the FCA confirmed that the publication of 1-month and 6-month synthetic GBP LIBOR will be required until the end of March 2023, after which date these settings will permanently cease. On 23 November 2022, the FCA announced its intention (i.e. proposed, not confirmed yet) to continue to require LIBOR's administrator, IBA, to publish the 3-month synthetic GBP LIBOR setting until the end of March 2024, after which it will also permanently cease.

On 23 November 2022, the FCA announced that the three synthetic JPY LIBOR settings will cease at end 2022.

Also, under their new use restriction power they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. On 23 November 2022, the FCA announced its proposal (i.e. proposed, not confirmed yet) to require IBA to continue to publish the 1-month, 3-month and 6-month USD LIBOR settings on a synthetic basis until end September 2024.

*How the Group is managing the transition to alternative benchmark rates*
BOC PCL established a project to manage the transition to alternative interest rate benchmarks with the Director of Treasury as the project owner and with oversight from a dedicated Benchmark Steering Committee. The main divisions involved in the project at the highest level are the Legal Department, Treasury, Risk Management, Finance, Information Technology (IT), Operations and the business lines. The Assets and Liabilities Committee (ALCO) monitors the project on a regular basis.

The Group's transition project also involved the drawing up of appropriate fallback provisions for LIBOR linked contracts and transition mechanisms in its floating rate assets and liabilities with maturities after 2021.

For the legacy non-cleared derivatives exposures, the Group has adhered to the International Swaps and Derivatives Association (ISDA) protocol which came into effect in January 2021, while for cleared derivatives, BOC PCL will adopt the market wide standardised approach to be followed by the relevant clearing house.

**46. Risk management - Market risk** (continued)

The Group proactively engaged with its customer base and market counterparties for the amendment of substantially all impacted LIBOR contracts (other than the relevant contracts referencing to USD LIBOR and which will cease on 30 June 2023) by 31 December 2021 for transitioning to alternative rates. Those legacy credit facilities in CHF for which the contract was not amended by the first interest period commencing in 2022 ('tough legacy'), have been transitioned to the statutory rate provided by EU legislation. The Group has also made the necessary arrangements to transition its tough legacy GBP and JPY credit facilities to alternative rates by notifying its customer base accordingly and reserving the right to use a statutory rate provided by EU legislation in case such a rate is nominated in the future. Specifically, in anticipation that the European Commission might not designate an alternative rate for JPY and GBP Libor, the Group has informed its customers of its decision to transition tough legacy JPY and GBP LIBOR credit facilities to the same alternative rates, as if the customer has signed the relevant contract amendment. This would ensure that customers would not be treated differently compared to other similar customers on the same JPY and GBP LIBOR tenor who have signed their contract amendment. The Group has also engaged in client communication to inform customers and ensure a smooth transition of non-USD LIBOR credit facilities to RFRs.

New RFR lending products have also been introduced and adopted across the Group’s key currencies.

The Group's project for the transition to alternative interest rate benchmarks is now focused of the transition of USD LIBOR contracts ahead of the June 2023 deadline.

BOC PCL has dedicated teams in place to support the transition and continuously assess, monitor and dynamically manage risks arising from the transition when required.

The Group has also been actively monitoring any market and regulatory developments published by regulatory bodies as well as by relevant Working Groups across various jurisdictions.

The Group will continue to assess, monitor and dynamically manage risks, and implement specific mitigating controls when required, progressing towards an orderly transition to alternative benchmarks.

The following table summarises the significant non-derivative exposures impacted by interest rate benchmark reform which have yet to transition as at 31 December 2022 and as at 31 December 2021 to the replacement benchmark rate at the respective date:

| **2022** | **USD LIBOR** | **Other LIBOR** | **Total** |
|---|---|---|---|
| **Non-derivative financial assets** | **€000** | **€000** | **€000** |
| Loans and advances to customers | 283,509 | 316 | **283,825** |
| Loans and advances to banks | 26,607 | 4,297 | **30,904** |
| **Total** | **310,116** | **4,613** | **314,729** |
| **Non-derivative financial liabilities** | | | |
| Deposits by banks | 7,416 | 248 | **7,664** |
| **Total** | **7,416** | **248** | **7,664** |

| **2021** | **GBP LIBOR** | **USD LIBOR** | **CHF LIBOR** | **Other LIBOR** | **Total** |
|---|---|---|---|---|---|
| **Non-derivative financial assets** | **€000** | **€000** | **€000** | **€000** | **€000** |
| Loans and advances to customers | 92,819 | 364,113 | 26,727 | 1,627 | **485,286** |
| Loans and advances to banks | 18,341 | 87,397 | 4,984 | 10,261 | **120,983** |
| **Total** | **111,160** | **451,510** | **31,711** | **11,888** | **606,269** |
| **Non-derivative financial liabilities** | | | | | |
| Deposits by banks | 113 | 7,658 | - | 503 | **8,274** |
| **Total** | **113** | **7,658** | **-** | **503** | **8,274** |

EURIBOR is in compliance with the EU Benchmarks Regulation and can continue to be used as a benchmark interest rate for existing and new contracts. The Group therefore, does not consider that Group’s exposure to EURIBOR is affected by the BMR reform.

**46. Risk management - Market risk** (continued)

For derivatives in hedging relationships subject to IBOR reform refer to Note 21.

**Currency risk**

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange positions. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by Market and Liquidity Risk.

The Group does not maintain a currency trading book.

The table below sets out the Group's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

The impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the subsidiaries whose functional currency is not the Euro. The net assets of foreign operations are also revalued and affect equity (by an approximately equal and opposite impact), but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

| 2022 | Change in foreign exchange rate<br>% | Impact on profit/loss after tax<br>€000 | Impact on equity<br>€000 |
|---|---|---|---|
| US Dollar | **+10** | **2,534** | **-** |
| Russian Rouble | **+70** | **2,806** | **-** |
| Romanian Lei | **+10** | **3** | **(349)** |
| Swiss Franc | **+10** | **237** | **-** |
| British Pound | **+10** | **483** | **-** |
| Japanese Yen | **+10** | **6** | **-** |
| Other currencies | **+10** | **65** | **-** |
| US Dollar | **-10** | **(2,073)** | **-** |
| Russian Rouble | **-40** | **(344)** | **-** |
| Romanian Lei | **-10** | **(2)** | **285** |
| Swiss Franc | **-20** | **(356)** | **-** |
| British Pound | **-10** | **(396)** | **-** |
| Japanese Yen | **-10** | **(5)** | **-** |
| Other currencies | **-10** | **(53)** | **-** |

| 2021 | Change in foreign exchange rate<br>% | Impact on profit/loss after tax<br>€000 | Impact on equity<br>€000 |
|---|---|---|---|
| US Dollar | +10 | 1,253 | - |
| Russian Rouble | +25 | 2,571 | 34,656 |
| Romanian Lei | +10 | - | 340 |
| Swiss Franc | +5 | 420 | - |
| British Pound | +10 | (70) | - |
| Japanese Yen | +10 | 67 | - |
| Other currencies | +10 | 138 | - |

## 46. Risk management - Market risk (continued)

| | Change in foreign exchange rate | Impact on profit/loss after tax | Impact on equity |
|---|---|---|---|
| | % | €000 | €000 |
| US Dollar | -10 | (1,025) | - |
| Russian Rouble | -25 | (1,543) | (20,793) |
| Romanian Lei | -10 | - | (278) |
| Swiss Franc | -5 | (380) | - |
| British Pound | -10 | 57 | - |
| Japanese Yen | -10 | (55) | - |
| Other currencies | -10 | (113) | - |

**Price risk**

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

Investments in equities are outside the Group's risk appetite, but may be acquired in the context of delinquent loan workouts. The Group monitors the current portfolio mostly acquired by the Group as part of the acquisition of certain operations of Laiki Bank, or through delinquent loan workouts, with the objective to gradually liquidate all positions for which there is a market. Equity securities are disposed of by the Group as soon as practicable.

Changes in the prices of equity securities that are classified as investments at FVPL, affect the results of the Group, whereas changes in the value of equity securities classified as FVOCI affect directly the equity of the Group.

The table below shows the impact on the profit/loss before tax and on equity of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

| | Change in index | Impact on profit/loss before tax | Impact on equity |
|---|---|---|---|
| **2022** | % | €000 | €000 |
| Cyprus Stock Exchange | **+50** | **1** | **1,383** |
| Athens Exchange | **+34** | **286** | **-** |
| New York Exchange | **+23** | **1,394** | **-** |
| Other stock exchanges and unlisted | **+66** | **2** | **2,569** |
| Non-listed (Real Estate) | **+25** | **-** | **1,735** |
| | | | |
| Cyprus Stock Exchange | **-33** | **(1)** | **(913)** |
| Athens Exchange | **-45** | **(379)** | **-** |
| New York Exchange | **-28** | **(1,697)** | **-** |
| Other stock exchanges and unlisted | **-59** | **(2)** | **(2,296)** |
| Non-listed (Real Estate) | **-10** | **-** | **(694)** |

| | Change in index | Impact on profit/loss before tax | Impact on equity |
|---|---|---|---|
| **2021** | % | €000 | €000 |
| Cyprus Stock Exchange | +20 | - | 645 |
| Athens Exchange | +30 | 257 | - |
| New York Exchange | +20 | 1,626 | - |
| Other stock exchanges and unlisted | +65 | 46 | 3,721 |
| Non-listed (Real Estate) | +25 | - | 1,666 |

**46. Risk management - Market risk** (continued)

| 2021 | Change in index<br>% | Impact on profit/loss before tax<br>€000 | Impact on equity<br>€000 |
|---|---|---|---|
| Cyprus Stock Exchange | -25 | (1) | (806) |
| Athens Exchange | -35 | (300) | - |
| New York Exchange | -25 | (2,033) | - |
| Other stock exchanges and unlisted | -80 | (57) | (4,579) |
| Non-listed (Real Estate) | -10 | - | (666) |

*Debt securities price risk*
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes mainly for fixed rate securities. The Group invests a significant part of its liquid assets in highly rated securities. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 31 December 2022 was A2 (2021: A3). The average rating excluding the Cyprus Government bonds and non-rated transactions as at 31 December 2022 was Aa2 (2021: Aa2). Further information on ratings of debt securities is disclosed in Note 45.11.

Changes in the prices of debt securities classified as investments at FVPL, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as FVOCI affect directly the equity of the Group.

The table below indicates how the profit/loss before tax and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, which is the maximum amount between the Monte Carlo CVAR (using a 97.5% Confidence Interval) and the Systematic Liquidity Risk according to the Internal Risk Based model, performed on a bond level.

| 2022 | Impact on profit/loss before tax<br>€000 | Impact on equity<br>€000 |
|---|---|---|
| **Up scenario:** | | |
| Aa3 and above rated bonds | **3,621** | **4,192** |
| A3 and above rated bonds | **1,733** | **3,324** |
| Baa1 and below rated bonds | **7** | **2,467** |
| Cyprus Government bonds | **-** | **34,179** |
| **Down scenario:** | | |
| Aa3 and above rated bonds | **(3,621)** | **(4,192)** |
| A3 and above rated bonds | **(1,733)** | **(3,324)** |
| Baa1 and below rated bonds | **(7)** | **(2,467)** |
| Cyprus Government bonds | **-** | **(34,179)** |

| 2021 | Impact on profit/loss before tax<br>€000 | Impact on equity<br>€000 |
|---|---|---|
| **Up scenario:** | | |
| Aa3 and above rated bonds | 2,383 | 4,093 |
| A3 and above rated bonds | 2,722 | 2,627 |
| Baa3 and above rated bonds | 31 | 4,183 |
| Cyprus Government bonds | - | 22,758 |
| **Down scenario:** | | |
| Aa3 and above rated bonds | (2,383) | (4,093) |
| A3 and above rated bonds | (2,722) | (2,627) |
| Baa3 and above rated bonds | (31) | (4,183) |
| Cyprus Government bonds | - | (22,758) |

## 46. Risk management - Market risk (continued)

*Other non-equity instruments price risk*
The table below shows the impact on the profit/loss before tax and on equity of the Group from a change in the price of other non-equity investments held, as a result of reasonably possible changes in the price index of the relevant instruments.

| | Change in index | Impact on profit/loss before tax | Impact on equity |
|---|---|---|---|
| **2022** | **%** | **€000** | **€000** |
| Other (non-equity instruments) | **+23** | **2,063** | **-** |
| Other (non-equity instruments) | **-28** | **(2,511)** | **-** |
| **2021** | | | |
| Other (non-equity instruments) | +20 | 1,107 | - |
| Other (non-equity instruments) | -25 | (1,384) | - |

**Property price risk**

A significant part of the Group's loan portfolio is secured by real estate the majority of which is located in Cyprus. Furthermore, the Group holds a substantial number of properties mainly arising from loan restructuring activities; the enforcement of loan collateral and debt for asset swaps. These properties are held by the Group primarily as stock of properties and some are held as investment properties.

Property risk is the risk that the Group's business and financial position will be affected by adverse changes in the demand for, and prices of, real estate, or by regulatory capital requirements relating to increased charges with respect to the stock of properties held.

## 47. Risk management - Liquidity and funding risk

**Liquidity Risk**

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at high cost or sell assets at a discount to fully and promptly satisfy its obligations.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment and unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management has adopted the Liquidity Policy of managing assets taking liquidity into consideration and monitoring cash flows and liquidity on a regular basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

**Management and structure**

The Board of Directors sets the Group's Liquidity Risk Appetite which defines the level of risk at which the Group should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews at frequent intervals the liquidity position of the Group.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity risk across the Group.

The Treasury Division is responsible for liquidity management at Group level ensuring compliance with internal policies and regulatory liquidity requirements and providing direction as to the actions to be taken regarding liquidity needs. Treasury assesses on a continuous basis, the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

Liquidity is also monitored by Market and Liquidity Risk department, to ensure compliance with both internal policies and limits, and with the limits set by the regulatory authorities. Market and Liquidity Risk department reports the liquidity position to ALCO at least monthly. It also provides the results of various stress tests to ALCO at least quarterly.

**47. Risk management - Liquidity and funding risk** (continued)

Liquidity is monitored and managed on an ongoing basis through:

(i) Risk appetite: established the Group's Risk Appetite Statement together with the appropriate limits for the management of all risks including liquidity risk.

(ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.

(iii) Liquidity limits: a number of internal and regulatory limits are monitored on a regular basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags and take action when the ratios deteriorate.

(iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Group. These are designed to immediately identify the emergence of increased liquidity risk so as to maximise the time available to execute appropriate mitigating actions.

(v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively identified and managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.

(vi) Recovery Plan: the Group has developed a Recovery Plan (RP), the key objectives of which are, among others, to set key Recovery and Early Warning Indicators and to set in advance a range of recovery options to enable the Group to be adequately prepared to respond to stressed conditions and restore the Group's liquidity position.

**Monitoring process**

*Daily*
The daily monitoring of the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market and Liquidity Risk department prepares a daily report analysing the internal liquidity buffer and comparing it to the previous day's buffer. Results are made available to members of the Risk and Treasury Divisions. In addition, Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

Market and Liquidity Risk department also prepares daily stress testing for bank specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable BOC PCL to survive a twelve-month stress period, including capacity to raise funding under all scenarios.

Moreover, an intraday liquidity stress test takes place to ensure that the Group maintains sufficient liquidity buffer in immediately accessible form, to enable it to meet the stressed intraday payments.

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), unpledged cash and nostro current accounts, as well as money market placements up to the stress horizon, available ECB credit line and market value net of haircut of unencumbered/available liquid bonds.

The designing of the stress tests follows guidance and is based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA. In addition, it takes into account SREP recommendations as well as the Annual Risk Identification Process of the Group. The stress test assumptions are reviewed on an annual basis and approved by the Board through its Risk Committee. Whenever it is considered appropriate to amend the assumptions during the year, approval is requested from ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off balance sheet commitments, marketable securities, own issue covered bond, additional credit claims, interbank takings and cash collateral for derivatives and repos.

*Weekly*
Market and Liquidity Risk department prepares a report indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

*Monthly*
Market and Liquidity Risk department prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates, the percentage of International Banking Services deposits over total deposits and the percentage of instant access deposits are also presented. The liquidity mismatch in the form of the Maturity Ladder report (for both contractual and behavioural flows) is presented to ALCO and the resulting mismatch between assets and liabilities is compared to previous month's mismatch.

**47. Risk management - Liquidity and funding risk** (continued)

Market and Liquidity Risk department also prepares a monthly liquidity report which is submitted to the ECB. The report includes information on deposits breakdown, cash flow information, survival period, LCR ratio, rollover of funding, funding gap (through the Maturity Ladder analysis), concentration of funding and collateral details. It concludes on the overall liquidity position of BOC PCL and describes the measures implemented and to be implemented in the short-term to improve liquidity position if needed.

Market and Liquidity Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB on a monthly basis.

*Quarterly*
The results of the stress testing scenarios are reported to ALCO and Board Risk Committee quarterly as part of the quarterly Internal Liquidity Adequacy Assessment Process (ILAAP) review. Market and Liquidity Risk reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly.

*Annually*
The Group prepares on an annual basis its report on ILAAP. The ILAAP report provides a holistic view of the Group's liquidity adequacy under normal and stress conditions. Within ILAAP, the Group evaluates its liquidity risk in the context of established policies and processes for the identification, measurement, management and monitoring of liquidity risk as implemented by the institution.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan (LCP) for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this committee and a series of the possible actions that can be taken. The LCP is reviewed and tested at least annually.

**Liquidity ratios**

The Group LCR is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. The minimum requirement is 100%. The Group also calculates its NSFR as per Capital Requirements Regulation II (CRR II), with the limit set at 100%. The NSFR is the ratio of available stable funding to required stable funding. NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

**Funding risk**

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

**Main sources of funding**

As at 31 December 2022 the Group's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations. Wholesale funding is also becoming an important source of funding, following the refinancing of the Tier 2 for €300 million in April 2021 and the issuance of senior preferred debt of €300 million in June 2021.

With respect to TLTRO III operations, the carrying value of the ECB funding as at 31 December 2022, (after the early repayment of €1 billion within December 2022), was €1,977 million (2021: €2,970 million).

As at 31 December 2022, the wholesale funding nominal amount was €820 million (2021: €856 million). This includes funding raised from the wholesale debt capital markets of €220 million AT1 issued in December 2018, €300 million new Tier 2 issued in April 2021 and €300 million senior preferred debt issued in June 2021. In January 2022, BOC PCL redeemed the remaining €36 million outstanding of the Tier 2 issued in January 2017.

**Funding to subsidiaries**

The funding provided by BOC PCL to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

## 47. Risk management - Liquidity and funding risk (continued)

The subsidiaries may proceed with dividend distributions in the form of cash to BOC PCL, provided that they are not in breach of their regulatory capital and liquidity requirements, where applicable. Certain subsidiaries have a recommendation from their regulator to exercise caution and prudence regarding dividend distributions and to consider the impact of COVID-19 on their operating models, solvency, liquidity and financial position.

### Collateral requirements and other disclosures

*Collateral requirements*
The carrying values of the Group's encumbered assets as at 31 December 2022 and 31 December 2021 are summarised below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Cash and other liquid assets | **73,557** | 102,463 |
| Investments | **284,343** | 1,260,158 |
| Loans and advances | **3,273,369** | 3,126,803 |
| | **3,631,269** | 4,489,424 |

Cash is mainly used to cover collateral required for derivatives, trade finance transactions and guarantees issued. It may also be used as part of the supplementary assets for the covered bond. The decrease in cash and other liquid assets presented as encumbered assets during the year ended 31 December 2022 was driven mainly by the decrease in cash encumbered for derivatives and for trade finance transactions.

As at 31 December 2022 and 2021, investments are mainly used as collateral for ECB funding or as supplementary assets for the covered bond. The decrease in the investments presented as encumbered assets during the year ended 31 December 2022 was driven by the removal of debt securities from the ECB collateral pool following the repayment of €1 billion TLTRO III funding in December 2022.

Loans and advances indicated as encumbered as at 31 December 2022 and 2021, are mainly used as collateral for funding from the ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount of €1,007 million as at 31 December 2022 (2021: €1,007 million) in Cyprus, pledged as collateral for the covered bond issued by BOC PCL in 2011 under its Covered Bond Programme. Furthermore, as at 31 December 2022 housing loans of a nominal amount of €2,287 million (2021: €2,091 million) in Cyprus, are pledged as collateral for funding from the ECB (Note 30).

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

*Other disclosures*
Deposits by banks include balances of €29,100 thousand as at 31 December 2022 (2021: €36,571 thousand) relating to borrowings from international financial and similar institutions for funding, aiming to facilitate access to finance and improve funding conditions for small or medium sized enterprises, active in Cyprus. The carrying value of the respective loans and advances granted to such enterprises serving this agreement amounts to €55,152 thousand as at 31 December 2022 (2021: €71,321 thousand).

### Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group’s financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

**47. Risk management - Liquidity and funding risk** (continued)

*Financial assets*
The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December until their contractual maturity date. Amounts placed as collateral (primarily for derivatives) are assigned to different time bands based on either their maturity, or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'Over five years' time band, unless classified as at FVPL, in which case they are included in the 'On demand and up to one month' time band.

The investments are classified in the relevant time band according to their contractual maturity.

*Financial liabilities*
All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Group has the discretion not to accept such early termination of deposits.

Debt securities in issue and subordinated liabilities are classified in the relevant time band according to the remaining contractual maturity.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

*Derivative financial instruments*
The fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

*Commitments and contingent liabilities*
Amounts of commitments and contingent liabilities are included in the time band on the basis of their remaining contractual maturities.

In the case of undrawn facilities the Group has the right to cancel them upon relevant notice to the customers and are hence included in the 'On demand and up to one month' time band.

## 47. Risk management - Liquidity and funding risk (continued)

| | On demand and up to one month | Between one and three months | Between three months and one year | Between one and five years | Over five years | **Total** |
|---|---|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | €000 | €000 | **€000** |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 9,541,665 | 9,624 | 13,489 | 1,480 | 703 | **9,566,961** |
| Loans and advances to banks | 134,556 | 1,340 | 36 | 64,558 | 4,321 | **204,811** |
| Investments at FVPL | 187,213 | - | - | 2,996 | - | **190,209** |
| Loans and advances to customers | 907,912 | 219,362 | 641,301 | 3,170,230 | 5,022,837 | **9,961,642** |
| Fair value of derivative assets | 507 | 160 | 238 | 10,811 | 36,437 | **48,153** |
| Investments not at FVPL | 42,553 | 70,637 | 318,427 | 1,793,724 | 288,153 | **2,513,494** |
| Other assets | 80,245 | 13,661 | 91,843 | 228,167 | 1,706 | **415,622** |
| | **10,894,651** | **314,784** | **1,065,334** | **5,271,966** | **5,354,157** | **22,900,892** |
| **Financial liabilities** | | | | | | |
| Deposits by banks | 144,389 | 20,320 | 33,128 | 215,446 | 120,895 | **534,178** |
| Funding from central banks | - | - | - | 2,028,300 | - | **2,028,300** |
| Customer deposits | 15,096,274 | 1,591,894 | 2,278,574 | 38,116 | - | **19,004,858** |
| Debt securities in issue | - | - | 7,500 | 339,725 | - | **347,225** |
| Subordinated liabilities | - | - | 19,875 | 89,626 | 420,618 | **530,119** |
| Fair value of derivative liabilities | 10,274 | 255 | 9 | 4,412 | 1,219 | **16,169** |
| Lease liabilities | 665 | 1,111 | 4,727 | 18,350 | 5,552 | **30,405** |
| Other liabilities | 168,614 | 17,956 | 30,684 | 7,452 | 3,291 | **227,997** |
| | **15,420,216** | **1,631,536** | **2,374,497** | **2,741,427** | **551,575** | **22,719,251** |
| **Net financial (liabilities)/assets** | **(4,525,565)** | **(1,316,752)** | **(1,309,163)** | **2,530,539** | **4,802,582** | **181,641** |

## 47. Risk management - Liquidity and funding risk (continued)

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 9,186,073 | 17,427 | 23,827 | 1,997 | 1,579 | **9,230,903** |
| Loans and advances to banks | 197,258 | 4,921 | 1,882 | 69,213 | 18,358 | **291,632** |
| Investments at FVPL | 193,160 | - | - | - | 6,034 | **199,194** |
| Loans and advances to customers | 998,098 | 216,897 | 689,990 | 3,282,030 | 4,649,390 | **9,836,405** |
| Fair value of derivative assets | 4,187 | 322 | 46 | 314 | 1,784 | **6,653** |
| Investments not at FVPL | 44,715 | 52,105 | 247,055 | 1,126,177 | 469,917 | **1,939,969** |
| Financial assets classified as held for sale | 227,195 | 8 | 451 | 1,606 | 21,110 | **250,370** |
| Other assets | 80,803 | 1,785 | 4,443 | 304,915 | 1,518 | **393,464** |
| | **10,931,489** | **293,465** | **967,694** | **4,786,252** | **5,169,690** | **22,148,590** |
| **Financial liabilities** | | | | | | |
| Deposits by banks | 59,987 | 16,568 | 26,426 | 193,160 | 170,983 | **467,124** |
| Funding from central banks | - | - | - | 2,931,762 | - | **2,931,762** |
| Customer deposits | 13,135,377 | 1,836,665 | 2,545,487 | 16,523 | - | **17,534,052** |
| Debt securities in issue | - | - | 7,500 | 30,000 | 307,500 | **345,000** |
| Subordinated liabilities | 38,898 | - | 19,875 | 79,500 | 399,375 | **537,648** |
| Fair value of derivative liabilities | 2,249 | 836 | 1,746 | 11,925 | 15,696 | **32,452** |
| Lease liabilities | 607 | 1,160 | 5,213 | 19,641 | 8,018 | **34,639** |
| Other liabilities | 178,701 | 20,922 | 30,737 | 6,582 | 3,342 | **240,284** |
| | **13,415,819** | **1,876,151** | **2,636,984** | **3,289,093** | **904,914** | **22,122,961** |
| **Net financial (liabilities)/assets** | **(2,484,330)** | **(1,582,686)** | **(1,669,290)** | **1,497,159** | **4,264,776** | **25,629** |

| 2022 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Gross settled derivatives** | | | | | | |
| *Financial assets* | | | | | | |
| Contractual amounts receivable | 149,604 | 83,265 | 1,230 | - | - | **234,099** |
| Contractual amounts payable | (149,166) | (83,215) | (1,222) | - | - | **(233,603)** |
| | **438** | **50** | **8** | **-** | **-** | **496** |
| *Financial liabilities* | | | | | | |
| Contractual amounts receivable | 1,034,973 | 65,093 | 1,222 | - | - | **1,101,288** |
| Contractual amounts payable | (1,045,050) | (65,224) | (1,223) | - | - | **(1,111,497)** |
| | **(10,077)** | **(131)** | **(1)** | **-** | **-** | **(10,209)** |

## 47. Risk management - Liquidity and funding risk (continued)

| 2022 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Contingent liabilities and commitments** | | | | | | |
| *Contingent liabilities* | | | | | | |
| Acceptances and endorsements | 1,756 | 2,890 | 529 | - | - | **5,175** |
| Guarantees | 145,303 | 108,220 | 228,922 | 130,112 | 38,662 | **651,219** |
| *Commitments* | | | | | | |
| Documentary credits | 1,206 | 6,900 | 9,268 | - | 250 | **17,624** |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 1,909,487 | - | - | - | - | **1,909,487** |
| | **2,057,752** | **118,010** | **238,719** | **130,112** | **38,912** | **2,583,505** |

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Gross settled derivatives** | | | | | | |
| *Financial assets* | | | | | | |
| Contractual amounts receivable | 420,866 | 55,956 | 1,498 | - | - | **478,320** |
| Contractual amounts payable | (416,841) | (55,707) | (1,475) | - | - | **(474,023)** |
| | **4,025** | **249** | **23** | **-** | **-** | **4,297** |
| *Financial liabilities* | | | | | | |
| Contractual amounts receivable | 576,053 | 63,521 | 798 | - | - | **640,372** |
| Contractual amounts payable | (577,555) | (63,992) | (813) | - | - | **(642,360)** |
| | **(1,502)** | **(471)** | **(15)** | **-** | **-** | **(1,988)** |

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Contingent liabilities and commitments** | | | | | | |
| *Contingent liabilities* | | | | | | |
| Acceptances and endorsements | 1,599 | 2,306 | 720 | - | - | **4,625** |
| Guarantees | 134,280 | 94,065 | 247,402 | 107,768 | 26,315 | **609,830** |
| *Commitments* | | | | | | |
| Documentary credits | 2,007 | 4,024 | 3,127 | 946 | 1,160 | **11,264** |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 1,950,665 | - | - | - | - | **1,950,665** |
| | **2,088,551** | **100,395** | **251,249** | **108,714** | **27,475** | **2,576,384** |

## 48. Risk management - Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is largely random and therefore unpredictable.

**48. Risk management - Insurance risk** (continued)

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are largely random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

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

*Life insurance contracts*
The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes, pandemics and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results:

| | **2022** | 2021 |
|---|---|---|
| **Changes in embedded value** | **€000** | €000 |
| Change in unit growth +0.25% | **184** | 123 |
| Change in expenses +10% | **(3,357)** | (3,925) |
| Change in lapsation rates +10% | **(1,792)** | (1,298) |
| Change in mortality rates +10% | **(10,603)** | (9,367) |

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non–economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non–economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value, each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with–profit business versus non–profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

## 48. Risk management - Insurance risk (continued)

*Non-life insurance contracts*
Non-life insurance business is concentrated in Cyprus and the main claims during 2022 and 2021 related to fire and natural forces and other damage to property, motor vehicle liability and general liability.

Risks under these policies are usually covered for a period of 12 months, with the exception of the goods in transit class that covers shorter periods and the contractors all risks class that covers longer periods.

The liabilities for outstanding claims arising from insurance contracts issued by the Group are based on experts' estimates and facts known at the balance sheet date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements in the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on experience and market trends, taking into consideration claims handling costs, inflation and claim numbers for each accident year. Also, external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation are taken into consideration.

The insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of court cases, is very difficult to be quantified. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty over the cost of claims at the reporting date.

The risk of a non-life insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, their severity and their evolution from one period to the next.

The main risks for the non-life insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from non-life insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative developments in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

## 49. Capital management

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

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

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

**49. Capital management** (continued)

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

The Group and BOC PCL have complied with the minimum capital requirements (Pillar I and Pillar II).

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

The insurance subsidiaries of the Group, the General Insurance of Cyprus Ltd and EuroLife Ltd, comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firm (CIF) of the Group, Cyprus Investment and Securities Corporation Ltd (CISCO) complies with the minimum capital adequacy ratio requirements. The regulated UCITS management of the Group, BOC Asset Management complied with the regulatory capital requirements of the Cyprus Securities and Exchange Commission (CySEC) law and regulations. In February 2023, the activities of BOC Asset Management Ltd were absorbed by CISCO and BOC Asset Management Ltd was dissolved. The payment services subsidiary of the Group, JCC Payment Services Ltd, complies with the regulatory capital requirements.

Additional information on regulatory capital is disclosed in 'Risk and Capital Management Report' (unaudited), which is included in the Annual Financial Report, and in the 'Pillar III Disclosures Report 2022' (unaudited), which is published on the Group's website.

## 50. Related party transactions

Related parties of the Group include associates and joint ventures, key management personnel, members of the Board of Directors and their connected persons. Connected persons for the purpose of this disclosure include spouses, minor/dependent children and companies in which directors/other key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Related parties also include entities providing key management personnel services to the Group.

### *(a) Transactions with subsidiaries*

The Company is the holding company of the Group. The Company enters into transactions with its subsidiaries in the normal course of business. Balances and transactions between the Company and its subsidiaries are disclosed in Note 17 of the Company's financial statements. Transactions with the subsidiaries have been eliminated on consolidation.

### *(b) Transactions with associates*

The Group provides to and receives from its associates certain banking and financial services. These are not material to the Group and all the transactions are made on normal business terms as for comparable transactions with customers of a similar standing. Additional information is disclosed in Note 52.

### *(c) Compensation of the Board of Directors and key management personnel*

The following disclosures are made in accordance with the provisions of IAS 24 Related Party Disclosures in respect of the compensation of the Board of Directors and key management personnel.

**Fees and emoluments of members of the Board of Directors and key management personnel**

| | **2022** | 2021 |
|---|---|---|
| **Directors' emoluments** | **€000** | €000 |
| *Executives* | | |
| Salaries and other short-term benefits | **1,046** | 801 |
| Employer's contributions | **63** | 43 |
| Retirement benefit plan costs | **82** | 68 |
| Share-based benefits | **118** | - |
| | **1,309** | 912 |
| *Non-executives* | | |
| Fees | **1,247** | 1,250 |
| Total directors' emoluments | **2,556** | 2,162 |
| **Key management personnel emoluments** | | |
| Salaries and other short-term benefits | **2,864** | 3,234 |
| Termination benefits | **200** | - |
| Employer's contributions | **336** | 274 |
| Retirement benefit plan costs | **218** | 181 |
| Share-based benefits | **204** | **-** |
| Total key management personnel emoluments | **3,822** | 3,689 |
| **Total** | **6,378** | 5,851 |

Fees and benefits are included for the period that they serve as members of the Board of Directors. Key management personnel emoluments are included for the period that they serve as key management personnel.

The retirement benefit plan costs relate to contributions paid for defined contributions plan.

**50. Related party transactions** (continued)

*Executive Directors*
The fees and emoluments of the Executive Directors are analysed as follows:

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| **Panicos Nicolaou (Chief Executive Officer)** | | |
| Salaries and other short-term benefits | **761** | 715 |
| Employer's contributions | **38** | 37 |
| Retirement benefit plan costs | **60** | 61 |
| Share-based benefits | **93** | - |
| | **952** | 813 |
| **Eliza Livadiotou (Executive Director Finance & legacy - appointed on 6 October 2021)** | | |
| Salaries and other short-term benefits | **285** | 86 |
| Employer's contributions | **25** | 6 |
| Retirement benefit plan costs | **22** | 7 |
| Share-based benefits | **25** | **-** |
| | **357** | 99 |
| **Total** | **1,309** | 912 |

The share-based benefits relate to the expense for the year for the share awards granted in December 2022 (Note 14).

*Non-executive Directors*
The fees of Non-executive Directors are analysed as follows:

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Efstratios-Georgios Arapoglou | **257** | 215 |
| Lyn Grobler | **165** | 154 |
| Arne Berggren | **124** | 113 |
| Constantine Iordanou | **95** | 6 |
| Ioannis Zographakis | **157** | 198 |
| Maksim Goldman[1] | **40** | 113 |
| Maria Philippou | **108** | 119 |
| Michael Heger[1] | **40** | 113 |
| Nicolaos Sofianos | **129** | 100 |
| Paula Hadjisotiriou | **132** | 119 |
| | **-** | - |
| | **-** | - |
| | **1,247** | 1,250 |

[1]Following the shareholders' vote on 20 May 2022, Mr Maksim Goldman and Dr. Michael Heger have not been re-elected to the Board of Directors of the Company.

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company and its subsidiaries, as well as of committees of the Board of Directors.

**50. Related party transactions** (continued)

*Key management personnel*
The emoluments of key management personnel include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and the emoluments of other members of the Senior Management team (Extended EXCO) (prior to the change in the Group organisational structure, in 2022 the key management personnel included those members of the management team who reported directly to the Chief Executive Officer or to the Deputy Chief Executive Officer & Chief of Business). Mrs Eliza Livadiotou was appointed as member of the Board of Directors from 6 October 2021 and her emoluments from that date onwards are disclosed within the Executive Directors emoluments above.

***(d) Transactions with Directors and key management personnel***

The tables below show the deposits, loans and advances and other credit balances held by the members of the Board of Directors and key management personnel and their connected persons, as at the balance sheet date and other relevant information as required by IAS 24 Related Party Disclosures.

**Loans to Directors**

For the purposes of these disclosures, 'Directors' means the current Board of Directors of the Company and any past Directors who were members of the Board of Directors of the Company during the year.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions, including interest rates, with customers of a similar credit standing.

There were 12 Directors in office during the year (2021: 12 Directors), 4 of whom availed of credit facilities (2021: 4 Directors). All of the Directors who availed of credit Facilities had balances outstanding at 31 December 2022 and 31 December 2021. The balances outstanding are disclosed below.

The value of arrangements at the beginning and end of the current and preceding financial years as stated below, expressed as a percentage of the net assets of the Group at the beginning and end of the current and preceding financial years is less than 1%.

Details of transactions with the Directors and their connected persons, where indicated, for the years ended 31 December 2022 and 2021 are as follows:

**Board of Directors**

| | Balance as at 1 January | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year** | **Unused credit facilities** |
|---|---|---|---|---|---|---|
| **Panicos Nicolaou** | €000 | €000 | €000 | **€000** | **€000** | **€000** |
| **2022** | | | | | | |
| Loans | 35 | - | 35 | - | 35 | - |
| Overdrafts/ credit cards | 3 | n/a | n/a | 2 | 4 | 46 |
| | 38 | | | 2 | 39 | 46 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Panicos Nicolaou** | €000 | €000 | €000 | **€000** | **€000** | **€000** |
| **2021** | | | | | | |
| Loans | 95 | - | 60 | 35 | 95 | - |
| Overdrafts/ credit cards | 2 | n/a | n/a | 3 | 4 | 45 |
| | 97 | | | 38 | 99 | 45 |

## 50. Related party transactions (continued)

| | Balance as at 1 January | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year** | **Unused credit facilities** |
|---|---|---|---|---|---|---|
| **Eliza Livadiotou** | €000 | €000 | €000 | **€000** | **€000** | **€000** |
| **2022** | | | | | | |
| Loans | 99 | - | 14 | 87 | 99 | - |
| Overdrafts/ credit cards | 8 | n/a | n/a | 14 | 14 | 48 |
| | 107 | | | 101 | 113 | 48 |
| **Eliza Livadiotou** | | | | | | |
| **2021** | | | | | | |
| Loans | 30 | 77 | 8 | 99 | 102 | - |
| Overdrafts/ credit cards | 9 | n/a | n/a | 8 | 33 | 55 |
| | 39 | | | 107 | 135 | 55 |

| | Balance as at 1 January | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year** | **Unused credit facilities** |
|---|---|---|---|---|---|---|
| **Ioannis Zographakis** | €000 | €000 | €000 | **€000** | **€000** | **€000** |
| **2022** | | | | | | |
| Overdrafts/ credit cards | 2 | n/a | n/a | 2 | 2 | 8 |
| **Ioannis Zographakis** | | | | | | |
| **2021** | | | | | | |
| Overdrafts/ credit cards | 1 | n/a | n/a | 2 | 4 | 8 |

| | Balance as at 1 January | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year** | **Unused credit facilities** |
|---|---|---|---|---|---|---|
| **Nicolaos Sofianos** | €000 | €000 | €000 | **€000** | **€000** | **€000** |
| **2022** | | | | | | |
| Overdrafts/ credit cards | 1 | n/a | n/a | - | 2 | 10 |
| **Nicolaos Sofianos** | | | | | | |
| **2021** | | | | | | |
| Overdrafts/ credit cards | 1 | n/a | n/a | 1 | 5 | 4 |

The balances included in the table above include principal and interest. Also, amounts approved and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

No other Directors had any loan facilities or overdraft/credit card balances with the Group during the year ended 31 December 2022 (2021: nil).

The aggregate expected credit loss allowance on the above loans and credit facilities is below €5 thousand as at 31 December 2022 (2021: below €5 thousand). All principal and interest that has fallen due on these loans or credit facilities has been paid.

## 50. Related party transactions (continued)

### Connected persons of the Board of Directors

The aggregate of loans to connected persons of Directors in office at 31 December 2022, are as follows (2022: aggregate of 2 persons; 2021: aggregate of 2 persons):

| | Balance as at 1 January | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year** |
|---|---|---|---|---|---|
| **Panicos Nicolaou** | €000 | €000 | €000 | **€000** | **€000** |
| **2022** | | | | | |
| Overdrafts/credit cards | 1 | n/a | n/a | 2 | 3 |
| **2021** | | | | | |
| Overdrafts/credit cards | - | n/a | n/a | 1 | 3 |

| | Balance as at 1 January (or appointment date) | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year** |
|---|---|---|---|---|---|
| **Eliza Livadiotou** | €000 | €000 | €000 | **€000** | **€000** |
| **2022** | | | | | |
| Loans | 83 | - | 12 | 74 | 83 |
| Overdrafts/credit cards | 7 | n/a | n/a | 10 | 10 |
| | 90 | | | 84 | 93 |
| **2021** | | | | | |
| Loans | 91 | - | 11 | 83 | 91 |
| Overdrafts/credit cards | 11 | n/a | n/a | 7 | 11 |
| | 102 | | | 90 | 102 |

The balances included in the table above include principal and interest. Also, amounts approved and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

The aggregate expected credit loss allowance on the above loans and credit facilities is below €5 thousand as at 31 December 2022 (2021: below €5 thousand). All principal and interest that has fallen due on these loans or credit facilities has been paid.

### Key management personnel in office during the year (and their connected persons)

There were 21 key management personnel in office during the year (2021: 17 key management personnel), 20 of whom availed of credit facilities (2021: 16 key management personnel). All of the key management personnel who availed of credit facilities had balances outstanding at 31 December 2022 and 31 December 2021.

A number of loans and advances have been extended to key management personnel on the same terms as those applicable to the rest of the Group's employees and to their connected persons on the same terms as those of customers of a similar credit standing.

Where no amount is shown in the tables below, this indicates a credit balance, a nil balance, or a balance of less than €500.

## 50. Related party transactions (continued)

Details of transactions with key management personnel and their connected persons for the years ended 31 December 2022 and 2021 are as follows:

| | Balance as at 1 January | Balances of key management personnel appointed in the year | Other movements on balances of key management personnel and their connected persons during the year | Amounts advanced during the year | Amounts repaid during the year | **Balance as at 31 December** | **Aggregate maximum amount outstanding during the year (Since appointment date)** |
|---|---|---|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | €000 | €000 | **€000** | **€000** |
| Loans | 1,836 | 1,154 | - | 41 | 433 | 2,400 | 2,720 |
| Overdrafts/credit cards | 453 | n/a | n/a | n/a | n/a | 386 | 603 |
| | 2,289 | | | | | 2,786 | 3,323 |
| **2021** | | | | | | | |
| Loans | 21,398 | - | 18,572 | 25 | 311 | 1,836 | 21,398 |
| Overdrafts/credit cards | 472 | n/a | n/a | n/a | n/a | 453 | 507 |
| | 21,870 | | | | | 2,289 | 21,905 |

The balances included in the table above include principal and interest. Also, amounts approved and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance. Other movements on balances of key management personnel and their connected persons during the year ended 31 December 2021 relate mainly to balances of connected entities that ceased to be connected to key management personnel.

The aggregate expected credit loss allowance on the above loans and credit facilities is below €6 thousand as at 31 December 2022 (2021: below €5 thousand). All principal and interest that has fallen due on these loans or credit facilities has been paid.

**Aggregate amounts outstanding at year end and additional transactions**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| **Loans and advances as at 31 December** | | |
| Board of Directors | **105** | 148 |
| Key management personnel | **2,191** | 2,216 |
| Connected persons - Board of Directors | **86** | 91 |
| Connected persons - Key management personnel | **595** | 73 |
| | **2,977** | 2,528 |
| **Deposits as at 31 December** | | |
| Board of Directors | **3,582** | 1,146 |
| Key management personnel | **1,952** | 1,541 |
| Connected persons - Board of Directors | **1,373** | 1,173 |
| Connected persons - Key management personnel | **1,805** | 1,081 |
| | **8,712** | 4,941 |
| | | |
| **Interest income for the year** | **71** | 394 |
| **Commission income for the year** | **6** | 1 |
| **Insurance premium income for the year** | **453** | 367 |
| **Subscriptions and insurance expenses for the year** | **296** | 377 |
| **Accruals and other liabilities as at 31 December with entity providing key management personnel services** | **-** | 1,199 |
| **Staff costs, consultancy, restructuring and other expenditure with entity providing key management personnel services** | **-** | 9,980 |

**50. Related party transactions** (continued)

The above table does not include year end balances for members of the Board of Directors, key management personnel and their connected persons who resigned during the year, nor balances of customers that do not meet the definition of connected persons as at 31 December 2022.

As at 31 December 2022 there were 10 Directors in office (2021: 12) and 20 key management personnel in office (2021:17)

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

During the year ended 31 December 2022 connected persons of key management personnel transacted with REMU for the purchase of a property amounting to €58 thousand (2021: nil). The transaction was made on normal business terms as for comparable transactions with third parties.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €120 thousand as at 31 December 2022 (2021: €133 thousand).

There were also contingent liabilities and commitments to key management personnel and their connected persons amounting to €1,227 thousand as at 31 December 2022 (2021: €573 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and their connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2022 amounted to €1,212 thousand (2021: €774 thousand).

During the year ended 31 December 2022 premiums of €202 thousand (2021: €152 thousand) and claims of €20 thousand (2021: €19 thousand) were paid by/to the members of the Board of Directors of the Company and their connected persons to/from the insurance subsidiaries of the Group.

There were no other transactions during the year ended 31 December 2022 and 2021 with connected persons of the current members of the Board of Directors or with any members who resigned during the year.

## 51. Group companies

The main subsidiary companies and branches included in the Consolidated Financial Statements of the Group, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2022 are:

| Company | Country | Activities | Percentage holding (%) |
|---|---|---|---|
| Bank of Cyprus Public Company Ltd | Cyprus | Commercial bank | 100 |
| EuroLife Ltd | Cyprus | Life insurance | 100 |
| General Insurance of Cyprus Ltd | Cyprus | Non-life insurance | 100 |
| JCC Payment Systems Ltd | Cyprus | Card processing transaction services | 75 |
| The Cyprus Investment and Securities Corporation Ltd (CISCO) | Cyprus | Investment banking and brokerage | 100 |
| BOC Asset Management Ltd | Cyprus | Management administration and safekeeping of UCITS Units | 100 |
| LCP Holdings and Investments Public Ltd | Cyprus | Investments in securities and participations in companies and schemes that are active in various business sectors and projects | 67 |
| Kermia Ltd | Cyprus | Property trading and development | 100 |
| Kermia Properties & Investments Ltd | Cyprus | Property trading and development | 100 |
| S.Z. Eliades Leisure Ltd | Cyprus | Land development and operation of a golf resort | 70 |
| Auction Yard Ltd | Cyprus | Auction company | 100 |
| BOC Secretarial Company Ltd | Cyprus | Secretarial services | 100 |
| Bank of Cyprus Public Company Ltd (branch of BOC PCL) | Greece | Administration of guarantees and holding of real estate properties | n/a |
| BOC Asset Management Romania S.A. | Romania | Collection of the existing portfolio of receivables, including third party collections | 100 |
| MC Investment Assets Management LLC | Russia | Problem asset management company | 100 |
| Fortuna Astrum Ltd | Serbia | Problem asset management company | 100 |

**51. Group companies** (continued)

In February 2023 the Group proceeded with a restructuring of its investment banking and brokerage activities through the absorption by CISCO of BOC Asset Management Ltd's activities. BOC Asset Management Ltd was subsequently dissolved.

In addition to the above companies, as at 31 December 2022 BOC PCL had 100% shareholding in the companies listed below, whose activity is the ownership and management of immovable property:

**Cyprus:** Hamura Properties Ltd, Tolmeco Properties Ltd, Arlona Properties Ltd, Dilero Properties Ltd, Ensolo Properties Ltd, Pelika Properties Ltd, Cobhan Properties Ltd, Ramendi Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, EuroLife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Astromeria Properties Ltd, Regetona Properties Ltd, Camela Properties Ltd, Fareland Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bonsova Properties Ltd, Thermano Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Coeval Properties Ltd, Finevo Properties Ltd, Mazima Properties Ltd, Nigora Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Odolo Properties Ltd, Calandomo Properties Ltd, Molemo Properties Ltd, Nivamo Properties Ltd, Samilo Properties Ltd, Sendilo Properties Ltd, Baleland Properties Ltd, Alezia Properties Ltd, Zenoplus Properties Ltd, Alepar Properties Ltd, Enelo Properties Ltd, Monata Properties Ltd, Vertilia Properties Ltd, Amary Properties Ltd, Aparno Properties Ltd, Lomenia Properties Ltd, Midelox Properties Ltd, Montira Properties Ltd, Orilema Properties Ltd and Philiki Ltd.

**Romania:** Otherland Properties Dorobanti SRL, Green Hills Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2022 BOC PCL had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd, Petrassimo Properties Ltd and Gosman Properties Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services.

At 31 December 2022 BOC PCL had 100% shareholding in BOC Terra AIF V.C.I Plc which is a real estate alternative investment fund, currently inactive.

At 31 December 2022 BOC PCL had 100% shareholding in the companies listed below which are reserved to accept property:

**Cyprus:** Holstone Properties Ltd, Cramonco Properties Ltd, Carilo Properties Ltd, Gelimo Properties Ltd, Rifelo Properties Ltd, Avaleto Properties Ltd, Larizemo Properties Ltd and Olisto Properties Ltd.

In addition, BOC PCL holds 100% of the following intermediate holding companies:

**Cyprus:** Otherland Properties Ltd, Battersee Properties Ltd, Bonayia Properties Ltd, Janoland Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Zunimar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafield Properties Ltd and Hydrobius Ltd.

## 51. Group companies (continued)

BOC PCL also holds 100% of the following companies which are inactive:

**Cyprus:** Laiki Bank (Nominees) Ltd, Paneuropean Ltd, Nelcon Transport Co. Ltd, Iperi Properties Ltd, CYCMC IV Ltd, Prodino Properties Ltd and Thryan Properties Ltd.

**Greece:** Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method. All companies listed above have share capital consisting of ordinary shares.

**Acquisitions of subsidiaries**

During the years ended 31 December 2022 and 2021 there were no acquisitions of subsidiaries.

**Dissolution and disposal of subsidiaries**

There were no material disposals of subsidiaries during the year ended 31 December 2022. Renalandia Properties Ltd, Crolandia Properties Ltd, Elosis Properties Ltd, Pariza Properties Ltd, Prosilia Properties Ltd, Otoba Properties Ltd, Dolapo Properties Ltd, Nivoco Properties Ltd, Polkima Properties Ltd, Fledgego Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Imperial Life Assurances Ltd, Philiki Management Services Ltd, Selilar Properties Ltd, Tantora Properties Ltd were dissolved during the year ended 31 December 2022. Vieman Ltd, Edilia Properties Ltd, Limoro Properties Ltd, Stevolo Properties Ltd, Yossi Properties Ltd, Jalimo Properties Ltd, Nesia Properties Ltd, Arcandello Properties Ltd, Meriaco Properties Ltd, Flymoon Properties Ltd, CYCMC II Ltd, Comenal Properties Ltd, Innerwick Properties Ltd, Palmco Properties Ltd, Paradexia Properties Ltd, Noleta Properties Ltd, Garmozy Properties Ltd, Valioco Properties Ltd, Dentorio Properties Ltd and Cimonia Properties Ltd were disposed of during the year ended 31 December 2022.

As at 31 December 2022, the following subsidiaries were in the process of dissolution or in the process of being struck off: Fantasio Properties Ltd, Demoro Properties Ltd, Bramwell Properties Ltd, Blindingqueen Properties Ltd, Fairford Properties Ltd, Salecom Ltd, Sylvesta Properties Ltd, Cyprialife Ltd, Battersee Real Estate SRL, Romaland Properties Ltd, Trecoda Properties Ltd, Weinco Properties Ltd, Aktilo Properties Ltd, Stormino Properties Ltd, Tavoni Properties Ltd, Ameleto Properties Ltd, Birkdale Properties Ltd, Folimo Properties Ltd, Steparco Ltd, Thames Properties Ltd and Finerose Properties Ltd.

During the year ended 31 December 2021, the Group disposed of its 100% shareholding in Global Balanced Fund of Funds Salamis Variable Capital Investment Company Plc and recorded a loss on disposal of €458 thousand in the consolidated income statement for the year ended 31 December 2021 (Note 13). In addition, the Group proceeded with the disposal of its 20% shareholding in CLR Investment Fund Public Ltd in October 2021. The disposal resulted in a loss of €66 thousand, which has been recognised in the consolidated income statement for the year ended 31 December 2021 (Note 13).

## 52. Investments in associates and joint venture

| **Investments in associates** | **Percentage holding (%)** |
|---|---|
| Aris Capital Management LLC | **30.0** |
| Rosequeens Properties Limited | **33.3** |
| Fairways Automotive Holdings Ltd | **45.0** |

The carrying values of the investments in associates are considered to be fully impaired and their value has been restricted to zero.

## 52. Investments in associates and joint venture (continued)

*Rosequeens Properties SRL*
During the year ended 31 December 2022 the Group disposed of its 33.3% holding in associate company Rosequeens Properties SRL.

*Apollo Global Equity Fund of Funds Variable Capital Investment Company Plc (Apollo)*
In March 2021, the Group completed the sale of its entire holding of 34.2% of the UCITS of Apollo. The Group considered that it exercised significant influence over Apollo even though no Board representation existed, because due to its UCITS holdings, it possessed the power to potentially appoint members of the Board of Directors. During the year ended 31 December 2021, an amount of €137 thousand was recognised in the consolidated income statement as the Group's share of profit from Apollo. The loss on the sale of the investment in associate amounted to €97 thousand and has been recognised in 'Other Income' during the year ended 31 December 2021.

| **Investment in joint venture** | **Percentage holding (%)** |
|---|---|
| Tsiros (Agios Tychon) Ltd | **50.0** |

The carrying value of the investment in the joint venture is considered to be fully impaired and its value has been restricted to zero.

## 53. Country by country reporting

Article 89 of CRD IV requires banks to disclose on a consolidated basis the following information for all countries where the Group operates. The table below provides information on the following items of the Group for year 2022:

| Country | Total operating income/(expense) €000 | Average number of employees | Profit/(loss) before tax €000 | Accounting tax expense on profit/(loss) €000 | Corporation tax paid/(refunded) €000 | Public subsidies received €000 |
|---|---|---|---|---|---|---|
| Cyprus | 709,650 | 3,209 | 119,761 | 38,471 | 6,715 | - |
| Russia | (76) | 3 | (7,404) | - | - | - |
| Romania | (149) | 2 | (355) | - | - | - |
| Greece | 1,407 | 6 | (1,670) | - | (22) | - |
| **Total** | **710,832** | **3,220** | **110,332** | **38,471** | **6,693** | **-** |

Total operating income/(expense), profit/(loss) before tax and accounting tax expense on profit/(loss) are prepared on the same basis as the figures reported elsewhere in these financial statements.

The activities of Group companies by geographical area are disclosed in Note 51.

Total operating income/(expense): comprises net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instruments, net gains on derecognition of financial assets measured at amortised cost, income from assets under insurance and reinsurance contracts, expenses from liabilities under insurance and reinsurance contracts, net losses from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income.

Number of employees: the number of employees has been calculated as the average number of employees, on a quarterly basis, who were employed by the Group during the year ended 31 December 2022.

Profit/(loss) before tax: profit/(loss) before tax represents profits/(losses) after the deduction of inter-segment revenues/(expenses).

Accounting tax expense on profit/(loss): includes corporation tax and Cyprus special defence contribution. Deferred tax credit for the year is excluded.

Corporation tax paid/(refunded) includes actual payments made during 2022 for corporation tax (including insurance premium taxes) and Cyprus special defence contribution.

## 54. Events after the reporting period

No significant non-adjusting events have taken place since 31 December 2022. With respect to the recent developments in financial markets reference is made in Note 4.

# *Independent Auditor's Report*

**To the Members of Bank of Cyprus Public Company Limited**

## *Report on the Audit of the Consolidated Financial Statements*

### *Our opinion*

In our opinion, the accompanying consolidated financial statements of Bank of Cyprus Public Company Limited (the "Company") and its subsidiaries (together the "Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

**What we have audited**

We have audited the consolidated financial statements which are presented in pages 117 to 305 and comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## Our audit approach

***Overview***
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.


- Overall group materiality: €16.7 million, which represents approximately 0.9% of the Group's net assets as presented on the consolidated balance sheet by line item 'Equity attributable to the owners of the Company'.

- We audited the complete financial information of 3 components, all in Cyprus, assessed as significant components.
- In addition, for components not assessed as significant, audit work over specific financial statement lines was performed.
- Our audit scope addressed approximately 93% of the Group's revenues and approximately 97% of the Group's total assets.

We have identified the following key audit matters:

- Impairment of loans and advances to customers.
- Litigation provisions and regulatory and other claims.
- Valuation of stock of properties.
- Privileged user access.

***Materiality***
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

| | |
|---|---|
| ***Overall group materiality*** | €16.7 million. |
| ***How we determined it*** | Based on approximately 0.9% of the Group's net assets as presented on the consolidated balance sheet by line item 'Equity attributable to the owners of the Company'. |
| ***Rationale for the materiality benchmark applied*** | We chose net assets as the benchmark, because in our view, it is reflective of the Group's Common Equity Tier 1 ("CET1") capital position, which is the benchmark against which the performance of the Group is most commonly measured by the users of the consolidated financial statements. We chose 0.9%, which in our experience is an acceptable quantitative threshold for this materiality benchmark. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €800 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

***How we tailored our group audit scope***

Bank of Cyprus Public Company Limited is the parent of a group of companies. The financial information of this Group is included in the consolidated financial statements of Bank of Cyprus Public Company Limited.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured into separate units, with the most significant being the Banking and the Insurance operations, both of which operate primarily in Cyprus. The Banking operations comprise one component, being Bank of Cyprus Public Company Limited. The Insurance operations comprise two components, being EuroLife Limited and General Insurance of Cyprus Limited. Full scope audit procedures were performed in respect of these components.

For other group business reporting units additional substantive audit procedures were carried out over specific financial statement lines in order to achieve the desired appropriate audit evidence. The consolidated financial statements are a consolidation of all the reporting units.

Taken together, our audit scope addressed approximately 93% of the Group's revenues and approximately 97% of the Group's total assets.

Where the work was performed by component auditors, we as group auditors determined the level of involvement we needed to have in the audit work of those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. Our involvement in that work included, amongst others, the instructing of the component auditors with respect to matters pertaining to the risk assessment process as well as our review of detailed memorandums prepared by the component auditors delineating the results of audit procedures performed. Further, on the basis of frequent communications with component audit teams in relation to the nature, timing and extent of the work impacting the Group audit opinion we ensured that our audit plan was appropriately executed. The group consolidation and consolidated financial statement disclosures are audited by the group engagement team.

By performing the procedures above at component level, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

**Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Impairment of loans and advances to customers***<br><br>Refer to Note 2.19, "Impairment of financial assets" within Note 2, "Summary of significant accounting policies", Note 5.2, "Calculation of expected credit losses" within Note 5 "Significant and other judgements, estimates and assumptions, Note 23, "Loans and advances to customers" and Note 45, "Risk management - credit risk".<br><br>The Group has developed complex models to calculate expected credit losses ("ECL") on its loans and advances to customers. Impairment provisions are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that are individually significant or which meet specific criteria determined by management.<br><br>We determined this to be a key audit matter due to the significant judgement exercised by management and the complexity in making the estimate including:<br><br>• The interpretations and assumptions required to build the models, including the segmentation employed; | We understood and evaluated the overall control framework and tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL. We tested the completeness and accuracy of data inputs to the ECL model on a sample basis.<br><br>We read and considered the minutes of the Joint Audit & Risk committee meetings where key inputs, assumptions, adjustments and outcomes were discussed and approved by the Joint Audit & Risk committee.<br><br>We assessed the appropriateness of the key assumptions used in the methodologies and models developed by the Group and their compliance with the requirements of IFRS 9.<br><br>We assessed the triggers identified by management to determine the appropriate staging of loans within Stages 1, 2 or 3 and tested, on a sample basis, the allocation of loans and advances to customers to Stages 1, 2 or 3 with reference to those triggers. As part of this, we considered the impact of staging overlays, where applicable. |

- The allocation of loans and advances to customers within Stages 1, 2 or 3 including consideration of relevant overlays, where applicable;
- Identifying 'Significant Increase in Credit Risk'; and
- The inputs, assumptions and probability weights assigned to multiple economic scenarios as used by the Group.

We tested, with the assistance of PwC credit risk experts, the assumptions, inputs and formulas used in the calculation of collective ECL. This included considering the appropriateness of model design and challenging the assumptions used (e.g., Exposure at Default, Loss Given Default and Probability of Default), and the appropriateness of the segmentation employed. We built an ECL calculator model which mathematically checked the calculation of collective ECL.

We evaluated the Group's individual assessments for a sample of material Stage 3 exposures for compliance with the Group's policies, developments during 2022 and compliance with IFRS 9 requirements; significant data inputs were tested with reference to appropriate supporting documentation, such as collateral valuations and Land Registry records.

We compared, with the assistance of PwC credit risk experts, the forward-looking macroeconomic assumptions used in the base, favourable and adverse scenarios to publicly available information. We also assessed the reasonableness of the adverse and favourable assumptions together with the scenario weightings applied by management.

We evaluated the appropriateness of the Group's disclosures particularly in relation to significant judgements and estimates.

We concluded that the methodologies and judgements used by management in determining the ECL charge and ECL provisions recognised were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Litigation provisions and regulatory and other claims***<br><br>Refer to Note 2.37 “Provisions for pending litigation, claims regulatory and other matters” within Note 2 “Summary of significant accounting policies”, Note 5.4 “Provisions for pending litigation, claims, regulatory and other matters” within Note 5 “Significant and other judgements, estimates and assumptions” and Note 39 “Pending litigation, claims, regulatory and other matters”, to the consolidated financial statements.<br><br>The Group is subject to various legal claims, investigations and other proceedings. Provisions for pending litigation, claims, regulatory and other matters amounted to €128 million as at 31 December 2022.<br><br>Management together with the Group’s compliance and legal departments and where necessary, the risk management department, review all existing and potential legal cases, prepare an assessment of potential outcomes for each individual case and assess the probability of economic outflow from the Group.<br><br>We have determined this to be a key audit matter as the recognition and measurement of provisions in respect of pending litigation, claims, regulatory and other matters requires a significant level of judgement by management. The judgements relate to the probability of obligating events requiring an outflow of resources to settle the obligation and the estimation of the extent of any related economic outflow. | We obtained an understanding of and evaluated the design of controls relevant to the recognition and measurement of litigation provisions and regulatory and other claims. We tested the operating effectiveness of controls we wished to rely on.<br><br>We tested a risk based sample of management’s assessment of individual cases, including whether an economic outflow was assessed as probable. We assessed management’s proposed provisions against information contained in case files and information obtained from external legal advisors. Where deemed necessary, we confirmed case facts and judgements directly with external legal advisors.<br><br>For a sample of cases where economic outflow was assessed as probable by management, and therefore a provision recorded, we recalculated the provision and performed sensitivity analysis on key assumptions used by management.<br><br>We understood the basis of management’s collective provisions, in circumstances where these are applied, assessed the key assumptions used by reference to past experience and recalculated provisions booked.<br><br>We inspected the minutes of meetings of the board of directors and certain of its committees for evidence of any unidentified legal cases or relevant developments in current cases, including the minutes of the Settlement of Legal Cases Committee.<br><br>We inspected regulatory correspondence and further inquired with the compliance department about known existing circumstances of possible non-compliance with any regulatory requirements.<br><br>We evaluated whether the disclosures made addressed significant uncertainties and assessed their adequacy against the relevant accounting standards for both provisions and contingencies as at 31 December 2022.<br><br>Based on evidence obtained, while noting the inherent uncertainty in such matters, we concluded that the recorded provisions for pending litigation, claims, regulatory and other matters were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate. |

***Valuation of stock of properties***

Refer to Note 2.30 "Stock of property", within Note 2 "Summary of significant accounting policies", Note 5.3, "Stock of property - estimation of net realisable value" within Note 5 "Significant and other judgements, estimates and assumptions" and Note 27 "Stock of properties".

The Group has acquired a significant number of properties as a result of restructuring agreements with customers. These properties are accounted for as stock of property at the lower of their cost or net realisable value in accordance with IAS 2.

Valuations obtained from external valuers and the holding periods for assets are key inputs to determine the appropriate carrying value.

We have determined this to be a key audit matter in light of the large volume of properties held, the carrying value of these properties of €1.041 million at 31 December 2022, and the uncertainty around market conditions when estimating the carrying amount.

We understood and evaluated the design of the overall control framework relevant to repossessed properties and tested the operating effectiveness of key controls around their valuation.

We focused on the key inputs and assumptions underlying the valuation of the properties.

We evaluated the competence, capability and objectivity of management's external experts (property valuers), where relevant.

For a sample of external valuation reports, we assessed the methodology and assumptions used with the assistance of PwC valuation experts.

We tested the accuracy of the application by management of illiquidity discounts for a sample of properties held at year end.

For a sample of properties acquired during the year, we tested "cost" by reference to signed "debt-for-asset" agreements entered into with borrowers, and we tested the "net realisable value" at year-end by reference to external valuation reports.

We performed look-back procedures by comparing the price achieved for disposals during 2022 to the carrying values for those assets as at 31 December 2021.

We evaluated whether the disclosures address significant judgements and estimates and assessed their adequacy against the relevant accounting standards.

We concluded that the judgements and estimates used by management in determining the carrying amount of stock of properties were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate.

***Privileged user access***

The Group's financial reporting is heavily reliant on IT systems which have been in place for a number of years and which are inherently complex, thereby creating an elevated risk to financial reporting.

The Group relies on privileged user access controls which are critical to ensuring that changes to applications and underlying data are made in an appropriate manner and to mitigate the risk of potential fraud or error.

We determined privileged user access to be a key audit matter as our audit approach relies on IT dependent controls and data and we performed extensive procedures due to the nature of the legacy systems in place.

With the assistance of PwC IT audit specialists, we obtained an understanding of the Group's IT environment and evaluated and tested the design and operating effectiveness of those IT General Controls (ITGCs) on IT systems that support financial reporting.

Where deficiencies in privileged user access controls were identified, we sought to identify and test other compensating controls. Where compensating controls or other mitigating factors and circumstances were not identified, we performed additional audit procedures in respect of user access rights. Specifically, we:

- Extracted user access listings directly from the production environment of relevant IT applications, along with their supporting IT infrastructure to validate the completeness of access rights within the Group's user access tool that supports the management of user access, for the provision, deprovision, and recertification of privileged access;
- Extracted the list of privileged users on the Group's data warehouse and considered the appropriateness of access during 2022;
- Extracted the list of developers from the production IT systems and release tools for those applications where system functionality is managed in-house and considered the appropriateness of developer access; and
- Considered the authentication controls of applications and supporting IT infrastructure to assess compliance with the Group's password policy requirements.

After evaluating the results of these additional audit procedures, where necessary, our team performed further audit procedures such that we concluded that any residual audit risk was reduced to an acceptable level.

## *Reporting on other information*

The Board of Directors is responsible for the other information. The other information comprises the information included in the Forward Looking Statements and Notes, Consolidated Management Report, Risk and Capital Management Report, ESG Disclosures and the Alternative Performance Measures Disclosures, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

## *Report on Other Legal and Regulatory Requirements*

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

### ***Appointment of the Auditor and Period of Engagement***

We were first appointed as auditors of the Company on 2 April 2019 by the shareholder of the Company through an extraordinary general meeting for the audit of the consolidated financial statements for the year ended 31 December 2019. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

### ***Consistency of the Additional Report to the Audit Committee***

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 31 March 2023 in accordance with Article 11 of the EU Regulation 537/2014.

***Provision of Non-audit Services***

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

***Other Legal Requirements***

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

## Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is George C. Kazamias.

George C. Kazamias

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

PwC Central, 43 Demostheni Severi Avenue
CY-1080 Nicosia Cyprus

31 March 2023

# Financial Statements 2022

**Contents** *Page*

# Income Statement

## for the year ended 31 December 2022

| | Notes | 2022<br>€000 | 2021 (restated)<br>€000 |
|---|---|---|---|
| **Turnover*** | | **733,724** | 615,512 |
| Interest income | 6 | **430,171** | 363,552 |
| Income similar to interest income | 6 | **57,078** | 51,584 |
| Interest expense | 7 | **(64,888)** | (66,431) |
| Expense similar to interest expense | 7 | **(14,840)** | (25,192) |
| *Net interest income* | | **407,521** | 323,513 |
| Fee and commission income | 8 | **186,609** | 168,808 |
| Fee and commission expense | 8 | **(14,861)** | (13,219) |
| Net foreign exchange gains | 9 | **27,280** | 15,518 |
| Net losses on financial instruments | 10 | **(52,575)** | (63,165) |
| Net gains on derecognition of financial assets measured at amortised cost | | **5,235** | 3,859 |
| Dividend income from subsidiaries | 22 | **21,459** | 25,205 |
| Net gains from revaluation and disposal of investment properties | | **520** | 214 |
| Net gains on disposal of stock of property | 26 | **10,561** | 10,831 |
| Other income | 11 | **6,164** | 4,812 |
| *Total operating income* | | **597,913** | 476,376 |
| Staff costs | 12 | **(267,423)** | (195,568) |
| Special levy on deposits and other levies/contributions | 13 | **(38,492)** | (36,350) |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | 37 | **(11,880)** | 533 |
| Other operating expenses | 13 | **(140,450)** | (146,680) |
| *Operating profit before credit losses and impairment* | | **139,668** | 98,311 |
| Credit losses on financial assets | 14 | **(63,356)** | (45,366) |
| Impairment net of reversals on non-financial assets | 14 | **(8,740)** | (32,595) |
| **Profit before tax** | | **67,572** | 20,350 |
| Income tax | 15 | **(26,627)** | (169) |
| **Profit after tax for the year** | | **40,945** | 20,181 |
| | | | |
| **Basic and diluted profit per share (€ cent)** | 16 | **0.4** | 0.2 |

* The Company's turnover as presented on the Income statement is analysed in Note 6 of the Consolidated Financial Statements of the Bank of Cyprus Group.

| | Notes | **2022**<br>**€000** | 2021<br>€000 |
|---|---|---|---|
| **Profit for the year** | | **40,945** | 20,181 |
| **Other comprehensive income (OCI)** | | | |
| **OCI that may be reclassified in the income statement in subsequent periods** | | **(10,182)** | 415 |
| **Fair value reserve (debt instruments)** | | **(10,182)** | (42) |
| Net losses on investments in debt instruments measured at fair value through OCI (FVOCI) | | **(8,920)** | (42) |
| Transfer to the income statement on disposal | | **(1,262)** | - |
| | | | |
| **Foreign currency translation reserve** | | **-** | 457 |
| Profit on translation of net investments in foreign branches | | **-** | 457 |
| | | | |
| **OCI not to be reclassified in the income statement in subsequent periods** | | **(6,245)** | 4,803 |
| **Fair value reserve (equity instruments)** | | **(118)** | 437 |
| Net (losses)/gains on investments in equity instruments designated at FVOCI | | **(118)** | 437 |
| | | | |
| **Property revaluation reserve** | | **216** | 602 |
| Fair value gain before tax | *24* | **-** | 468 |
| Deferred tax | *15* | **216** | 134 |
| | | | |
| **Actuarial (losses)/gains on defined benefit plans** | | **(6,343)** | 3,764 |
| Remeasurement (losses)/gains on defined benefit plans | *12* | **(6,343)** | 3,764 |
| | | | |
| **Other comprehensive (loss)/income for the year net of taxation** | | **(16,427)** | 5,218 |
| **Total comprehensive income for the year** | | **24,518** | 25,399 |

# Balance Sheet
## as at 31 December 2022

| | Notes | 2022<br>€000 | 2021 (restated)<br>€000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | *17* | **9,567,095** | 9,230,717 |
| Loans and advances to banks | *17* | **166,689** | 247,693 |
| Derivative financial assets | *19* | **48,153** | 6,653 |
| Investments at FVPL | *18* | **8,712** | 4,865 |
| Investments at FVOCI | *18* | **456,598** | 734,059 |
| Investments at amortised cost | *18* | **2,046,119** | 1,191,274 |
| Loans and advances to customers | *21* | **9,952,921** | 9,835,534 |
| Balances with Group companies | *22* | **566,125** | 667,725 |
| Prepayments, accrued income and other assets | *27* | **513,141** | 499,438 |
| Stock of property | *26* | **441,816** | 513,289 |
| Investment properties | *20* | **26,351** | 34,125 |
| Deferred tax assets | *15* | **227,455** | 265,364 |
| Property and equipment | *24* | **200,736** | 207,464 |
| Intangible assets | *25* | **38,379** | 41,846 |
| Investment in subsidiaries | *48* | **161,550** | 91,218 |
| Non-current assets and disposal groups held for sale | *28* | **-** | 338,630 |
| **Total assets** | | **24,421,840** | 23,909,894 |
| **Liabilities** | | | |
| Deposits by banks | | **501,381** | 451,960 |
| Funding from central banks | *29* | **1,976,674** | 2,969,600 |
| Derivative financial liabilities | *19* | **16,169** | 32,452 |
| Customer deposits | *30* | **18,998,319** | 17,530,883 |
| Balances with Group companies | *22* | **97,513** | 67,929 |
| Accruals, deferred income, other liabilities and other provisions | *32* | **269,027** | 270,903 |
| Provisions for pending litigation, claims, regulatory and other matters | *37* | **120,625** | 97,104 |
| Debt securities in issue | *31* | **297,636** | 302,555 |
| Subordinated liabilities | *31* | **303,812** | 342,373 |
| Deferred tax liabilities | *15* | **19,644** | 20,435 |
| **Total liabilities** | | **22,600,800** | 22,086,194 |
| **Equity** | | | |
| Share capital | *33* | **959,794** | 959,794 |
| Revaluation and other reserves | | **58,599** | 72,541 |
| Retained earnings | *35* | **582,647** | 571,365 |
| Other equity instruments | *33* | **220,000** | 220,000 |
| **Total equity** | | **1,821,040** | 1,823,700 |
| **Total liabilities and equity** | | **24,421,840** | 23,909,894 |

**Mr. E.G. Arapoglou**
Chairman

**Mr. P. Nicolaou**
Chief Executive Officer

**Mr. N. Sofianos**
Director

**Mrs. E. Livadiotou**
Executive Director Finance& Legacy

# Statement of Changes in Equity
## for the year ended 31 December 2022

| | Attributable to shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 33) | Share premium (Note 33) | Retained earnings (Note 35) | Other capital reserves (Note 12) | Property revaluation reserve | Financial instruments fair value reserve | Foreign currency translation reserve | Other equity instruments (Note 33) | **Total equity** |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| **1 January 2022** | 959,794 | - | 571,365 | - | 57,199 | 18,150 | (2,808) | 220,000 | **1,823,700** |
| Profit for the year | - | - | 40,945 | - | - | - | - | - | **40,945** |
| Other comprehensive (loss)/income after tax for the year | - | - | (6,343) | - | 216 | (10,300) | - | - | **(16,427)** |
| Total comprehensive income/(loss) after tax for the year | - | - | 34,602 | - | 216 | (10,300) | - | - | **24,518** |
| Share-based benefits - cost | - | - | - | 322 | - | - | - | - | **322** |
| Transfers to retained earnings | - | - | 4,180 | - | (6,134) | 412 | 1,542 | - | **-** |
| Payment of coupon to AT1 holders (Note 33) | - | - | (27,500) | - | - | - | - | - | **(27,500)** |
| **31 December 2022** | **959,794** | **-** | **582,647** | **322** | **51,281** | **8,262** | **(1,266)** | **220,000** | **1,821,040** |

# Statement of Changes in Equity
## for the year ended 31 December 2022

| | Attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 33) | Share premium (Note 33) | Retained earnings (Note 35) | Property revaluation reserve | Financial instruments fair value reserve | Foreign currency translation reserve | Other equity instruments (Note 33) | **Total equity** |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| **1 January 2021** | 959,794 | - | 574,975 | 56,597 | 17,700 | (3,265) | 220,000 | **1,825,801** |
| Profit for the year | - | - | 20,181 | - | - | - | - | **20,181** |
| Other comprehensive income after tax for the year | - | - | 3,764 | 602 | 395 | 457 | - | **5,218** |
| Total comprehensive income after tax for the year | - | - | 23,945 | 602 | 395 | 457 | - | **25,399** |
| Transfer of realised profits on disposal of properties | - | - | (55) | - | 55 | - | - | **-** |
| Payment of coupon to AT1 holders (Note 33) | - | - | (27,500) | - | - | - | - | **(27,500)** |
| **31 December 2021** | **959,794** | **-** | **571,365** | **57,199** | **18,150** | **(2,808)** | **220,000** | **1,823,700** |

| | Notes | 2022 €000 | 2021 (restated) €000 |
|---|---|---|---|
| Profit before tax | | **67,572** | 20,350 |
| Adjustments for: | | | |
| Depreciation of property and equipment and amortisation of intangible assets | | **26,617** | 28,329 |
| Impairment of stock of property and other non-financial assets | | **6,108** | 27,592 |
| Impairment of balances with Group Companies | | **7,353** | 4,464 |
| Credit losses on financial assets | *14* | **56,003** | 40,902 |
| Net gains on derecognition of financial assets measured at amortised cost | | **(5,235)** | (3,859) |
| Amortisation of discounts/premiums and interest on debt securities | | **(21,344)** | (20,102) |
| Dividend income | | **(21,542)** | (25,577) |
| Net loss on disposal of investment in debt securities measured at FVOCI | | **2,384** | - |
| Loss from revaluation of debt securities designated as fair value hedges | | **51,839** | 16,779 |
| Interest on subordinated liabilities and debt securities in issue | | **28,070** | 27,390 |
| Negative interest on loans and advances to banks and balances with central banks | | **23,184** | 31,919 |
| Negative interest on funding from central banks | | **(18,418)** | (25,094) |
| Profit on disposal/dissolution of subsidiaries and associates | | **(781)** | (108) |
| Loss from buyback of subordinated loan stock | *10* | **-** | 12,558 |
| Impairment of investment in subsidiaries | | **2,632** | 5,003 |
| Net losses on balances with Group companies | | **61,524** | 39,378 |
| Net gains on disposal of stock of property and investment properties | | **(11,529)** | (11,577) |
| Loss on sale and write offs of property and equipment and intangible assets | | **14** | 13 |
| Interest expense on lease liability | | **11** | 31 |
| Net losses from revaluation of investment properties | | **448** | 532 |
| | | **254,910** | 168,923 |
| Change in: | | | |
| Loans and advances to banks | | **28,992** | (23,947) |
| Deposits by banks | | **49,421** | 63,267 |
| Obligatory balances with central banks | | **52,450** | (8,956) |
| Customer deposits | | **1,467,436** | 997,671 |
| Debit balances with Group companies | | **(46,950)** | 29,364 |
| Credit balances with Group companies | | **29,584** | (3,877) |
| Loans and advances to customers | | **(157,654)** | (228,626) |
| Prepayments, accrued income and other assets | | **150** | 85,893 |
| Provisions for pending litigation, claims, regulatory and other matters | | **4,154** | (46,671) |
| Accruals, deferred income, other liabilities and other provisions | | **(5,824)** | 8,833 |
| Derivative financial instruments | | **(57,783)** | 4,448 |
| Investments measured at FVPL | | **(3,847)** | 8,519 |
| Stock of property | | **108,807** | 89,607 |
| | | **1,723,846** | 1,144,448 |
| Tax paid | | **(7)** | 179 |
| **Net cash from operating activities** | | **1,723,839** | 1,144,627 |
| **Cash flows from investing activities** | | | |
| Purchases of debt, treasury bills and equity securities | | **(1,101,030)** | (619,380) |
| Proceeds on disposal/redemption of investments in debt and equity securities | | **453,198** | 379,298 |
| Net exchange differences | | **(17,784)** | (26,605) |
| Interest received from debt securities | | **30,929** | 27,324 |
| Dividend income from equity securities | | **21,542** | 25,577 |
| Proceeds on disposal of held for sale portfolios | | **332,151** | 145,030 |
| Deposits on held for sale portfolios | | **-** | 19,225 |
| Proceeds on disposal of subsidiaries and associates | | **4,200** | 8,323 |
| Purchases of property and equipment | *24* | **(5,297)** | (4,216) |
| Purchases of intangible assets | *25* | **(11,330)** | (12,944) |
| Proceeds on disposals of property and equipment and intangible assets | | **516** | 110 |
| Proceeds on disposals of investment properties | | **8,699** | 9,236 |
| **Net cash used in investing activities** | | **(284,206)** | (49,022) |
| | | | |
| **Cash flow from financing activities** | | | |
| Payment of AT1 coupon | *33* | **(27,500)** | (27,500) |
| Net (repayments)/proceeds of funding from central banks | | **(979,389)** | 2,000,000 |
| Proceeds from issue of subordinated liabilities | | **-** | 300,000 |
| Repayments of subordinated liabilities | | **(35,605)** | (231,596) |

| | | | |
|---|---|---|---|
| Proceeds from the issue of debt securities (net of costs) | | **-** | 298,505 |
| Interest on subordinated liabilities | | **(23,334)** | (33,570) |
| Interest on debt securities in issue | | **(7,858)** | - |
| Negative interest on loans and advances to banks and balances with central banks | | **(23,184)** | (31,919) |
| Principal elements of lease payments | | **(6,000)** | (6,877) |
| **Net cash (used in)/from financing activities** | | **(1,102,870)** | 2,267,043 |
| **Net increase in cash and cash equivalents** | | **336,763** | 3,362,648 |
| **Cash and cash equivalents 1 January** | | **9,211,105** | 5,848,457 |
| **31 December** | *40* | **9,547,868** | 9,211,105 |

Additional information on the cash flow statement is provided in Note 39.

## 1. Corporate information

Bank of Cyprus Public Company Limited (the Company) is the holding company of the Bank of Cyprus Group (the Group). The principal activities of the Company involve the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

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

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law.

The shares of the parent company Bank of Cyprus Holdings Public Limited Company (BOCH), a company incorporated in Ireland, are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE). The Company remains a public company for the purposes of the Cyprus Income Tax Laws.

The financial statements are available at the Bank of Cyprus Public Company Ltd registered office (51 Stassinos Street, 2002 Strovolos, Nicosia, Cyprus) and on the Group's website http://www.bankofcyprus.com (Group/Investor Relations/Financial Results).

The Annual Financial Report of Bank of Cyprus Holdings Public Limited Company is available on the website http://www.bankofcyprus.com (Group/Investor Relations/Financial Results).

*Financial Statements*
The Financial Statements of the Bank of Cyprus Public Company Ltd for the year ended 31 December 2022 (the Financial Statements) were authorised for issue by a resolution of the Board of Directors on 31 March 2023.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

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

***Statement of compliance***
The Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs.

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

The Company presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 42.

The Financial Statements include the branch of the Company in Greece.

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

***Comparative information***
Comparative information was restated following certain changes in the presentation of the primary statements for the year ended 31 December 2022 as described further below. The changes did not have an impact on the results for the year or equity of the Company.

***Reclassifications within the Income Statement***
'Gains/(losses) on disposal/dissolution of subsidiaries and associates', previously presented within 'Net (losses)/gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates', are now presented within 'Other income'. 'Net gains/(losses) on financial instrument transactions' has been renamed to 'Net gains/(losses) on financial instruments'. 'Provisions for pending litigations, regulatory and other provisions (net of reversals)' previously presented within 'Other operating expenses' is now presented separately in the Income Statement. As a result of these changes in the presentation of 'Other income' 'Turnover' is also restated as indicated below.

Credit losses relating to financial assets, including loans and advances to customers, is now presented in a single line. Analysis of the individual components included within each line item is presented in the respective Notes.

| | 31 December 2021 (as previously presented) | Reclassifications | 31 December 2021 (restated) |
|---|---|---|---|
| | €000 | €000 | €000 |
| Net losses on financial instrument transactions and disposal/dissolution of subsidiaries and associates | (63,057) | 63,057 | n/a |
| Net losses on financial instruments | n/a | (63,165) | (63,165) |
| Other income | 4,704 | 108 | 4,812 |
| | (58,353) | - | (58,353) |
| | | | |
| Credit losses to cover credit risk on loans and advances to customers | (35,203) | 35,203 | n/a |
| Credit losses of other financial instruments | (10,163) | 10,163 | n/a |
| Credit losses on financial assets | n/a | (45,366) | (45,366) |
| | (45,366) | - | (45,366) |
| | | | |
| Other operating expenses | (146,147) | (533) | (146,680) |
| Provisions for pending litigations, regulatory and other provisions (net of reversals) | n/a | 533 | 533 |
| | (146,147) | - | (146,147) |
| Turnover | 615,404 | 108 | 615,512 |

***Reclassifications within the Balance Sheet***

Investments are now presented by class on the face of the balance sheet and loan stock is now presented in separate lines by type of liability issued.

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

| | 31 December 2021 (as previously presented) | Reclassifications | 31 December 2021 (restated) |
|---|---|---|---|
| **Assets** | **€000** | **€000** | **€000** |
| Investments | 670,040 | (670,040) | n/a |
| Investments pledged as collateral | 1,260,158 | (1,260,158) | n/a |
| Investments at FVPL | n/a | 4,865 | 4,865 |
| Investments at FVOCI | n/a | 734,059 | 734,059 |
| Investments at amortised cost | n/a | 1,191,274 | 1,191,274 |
| | 1,930,198 | - | 1,930,198 |
| | | | |
| **Liabilities** | | | |
| Loan stock | 644,928 | (644,928) | n/a |
| Debt securities in issue | n/a | 302,555 | 302,555 |
| Subordinated liabilities | n/a | 342,373 | 342,373 |
| | 644,928 | - | 644,928 |

The Statement of Cash Flows for the year ended 31 December 2021 as well as respective notes were restated to reflect the changes in the presentation of the Income Statement and Balance Sheet described above.

In addition, comparative information was restated in relation to the presentation of 'credit risk concentration of loans and advances to customers' as detailed in Notes 21, 30, 43.2, 43.3, 43.6 and 43.10.

### 2.2 Accounting policies and changes in accounting policies and disclosures

The accounting policies adopted in preparing the Financial Statements of the Company are consistent with those adopted in preparing the Consolidated Financial Statements of the Group, a summary of which is presented in Note 2 of the Consolidated Financial Statements of the Group for the year ended 31 December 2022.

In addition the following policies are adopted:

*Investments in subsidiaries, associates and joint ventures*
Investments in subsidiaries, associates and joint ventures are measured at cost less impairment.

The Company periodically evaluates the recoverability of the investment in subsidiary companies whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows of the subsidiaries or material adverse changes in the economic or political stability of the country that the subsidiaries operate, which may indicate that the carrying amount of the investment in subsidiary companies is not recoverable. If facts and circumstances indicate that investment in subsidiary companies may be impaired, the recoverable amount of each subsidiary would be compared to the carrying amount of the investment in the subsidiary in the Company’s financial statements to determine if impairment of the investment is necessary. An impairment loss is recognised equal to the excess of the carrying amount of the investment in the subsidiary over its recoverable amount.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 of the Consolidated Financial Statements of the Group for the year ended 31 December 2022.

## 3. Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern for a period of 12 months from the date of approval of these Financial Statements.

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

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

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

*Funding and liquidity*
The Directors and Management have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. The Group continues to hold a significant liquidity buffer at 31 December 2022 that can be easily and readily monetised in a period of stress.

## 4. Economic and geopolitical environment

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

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

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

## 4. **Economic and geopolitical environment** (continued)

Recent developments in financial markets in March 2023, particularly in the United States but also in Europe to a lesser extent, have been unprecedented. The failures of the two banks in the United States, the California-based Silicon Valley Bank and the New York-based Signature Bank, prompted the forceful intervention of the authorities to pre-empt the risk of financial instability in the banking system. The US authorities have also taken additional measures to prevent a broader run on bank deposits. This included invoking a systemic risk clause that allowed the US authorities to guarantee all deposits in the two banks beyond the $250,000 insured cap guarantee by the FDIC. The US Federal Reserve also established a new lending facility that provides banks access to liquidity against eligible collateral, but without the need to take a haircut.

In Switzerland, Credit Suisse was exposed to the same sort of concerns as global banks; Credit Suisse was bought by UBS, another Swiss bank, after a deal brokered by the Swiss government, the Swiss National Bank and FINMA which included liquidity assistance from the Swiss National Bank and partial losses guarantees from the government.

Following the Credit Suisse deal, the Single Resolution Board, the European Banking Authority and ECB Banking Supervision issued a statement welcoming the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability and noting that the European banking sector is resilient, with robust levels of capital and liquidity.

The Group is closely monitoring developments.

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

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

Overall, the Group's direct exposure to Russia, Ukraine and Belarus remains limited. In summary, the Group has direct lending exposure to Russia, Ukraine and Belarus of a gross book value of approximately €108 million (2021: €119 million) across its business divisions as at 31 December 2022 of which €98 million (2021: €95 million) were classified as performing and secured mainly with residential collateral located in Cyprus. The basis of the exposure is expanded compared to the country risk exposure as included in Note 43.2 below which is disclosed by reference to the country of residency/country of registration, to also include exposures for loans and advances to customers with passport of origin in these countries and/or business activities within these countries and/or where the UBO has passport of origin or residency in these countries.

Customer deposit balances with customers with UBO primary passport of origin in these countries amounts to c. 5.7% of total deposits as at 31 December 2022 as disclosed below in Note 30.

With respect to the Group's Russian subsidiary, the net exposure is being run down and as a result the net assets included on the Group's balance sheet as at 31 December 2022 are less than €1 million (2021: €10 million).

## 5. **Significant and other judgements, estimates and assumptions**

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

## 5. Significant and other judgements, estimates and assumptions (continued)

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

The most significant judgements, estimates and assumptions relate to the classification of financial instruments and the calculation of expected credit losses (ECL), the estimation of the net realisable value of stock of property and the provisions for pending litigation, claims, regulatory and other matters, which are presented in Notes 5.1 to 5.4 below. Other judgements, estimates and assumptions are disclosed further below in Notes 5.5 to 5.10.

### 5.1 Classification of financial assets

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

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

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

### 5.2 Calculation of expected credit losses

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

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

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

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

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

**5. Significant and other judgements, estimates and assumptions** (continued)

**5.2 Calculation of expected credit losses** (continued)

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

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

In a challenging international environment, the Cypriot economy has shown considerable resilience. Growth remained strong in 2022 averaging 5.6% which is well above the euro area average, driven almost entirely by services on the supply side. Tourist activity recovered strongly during the year with arrivals reaching 80% and receipts 90% of the levels in 2019. On the demand side, growth was driven by private consumption and investment, especially inventory accumulation, while the external sector made a negative contribution due to faster growth in imports. However, growth is expected to slow in 2023, towards 3%, according to the Ministry of Finance.

Rising energy costs, exacerbated by the war in Ukraine, are affecting both consumers and businesses and the government has taken initial steps to mitigate the impact. Harmonised inflation in Cyprus fell from 10.6% in July 2022 to an annual average of 7.6% in December 2022.

Cyprus received a pre-financing of €157 million from the Recovery and Resilience Facility in September 2021 and the first disbursement of €85 million in December 2022. The release of the funds is conditional on the strict implementation of the reforms agreed in the National Recovery Plan. The funds will be used, among other things, to increase investment in the digital and green transition, improve the efficiency of public and local administrations, and improve the efficiency of the judicial system.

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

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

For the ECL, the Company updated its forward looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments at the national and the EU level based on developments and events as at the reporting date, i.e. 31 December 2022.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

The tables below indicate the most significant macroeconomic variables as well as the scenarios used as at 31 December 2022 and 2021 respectively. The Company uses three different economic scenarios in the calculation of default probabilities and provisions. The Company has used the 30-50-20 probability structure for the adverse, base and favourable scenarios respectively compared to the 25-50-25 structure derived using the method described in Note 2.19.5. of the Consolidated Financial Statements of the Group for the year ended 2022. This reflects management's view of specific characteristics of the Cyprus economy that render it more vulnerable to external and internal shocks. Given the added uncertainties of the outlook for 2023 and downside risks, a global slowdown and the continuing war in Ukraine with the risk of escalation rising as well as the tighter monetary environment in the light against inflation, management decided to maintain an elevated weight on the adverse scenario.

In the banking sector total non-performing exposures at the end of November 2022, amounted to €2.7 billion, or 10.5% of gross loans and the coverage ratio was 52.2%. Private debt has continued to decline since mid-2012, shrinking by more than half by the end of December 2022. The decline reflects the long process of deleveraging since the start of the financial crisis and includes the sale or transfer of non-performing loans in recent years. Private debt, as measured by loans to residents excluding the government, stands at 80% of nominal GDP at the end of December 2022.

These factors and the overall risk profile discussed in the previous section, including economic structure risk given a very large external sector and high concentration to geographical areas render the economy more susceptible to external shocks and weaken its resilience. This may, in management's view, not be fully captured in the weights as calculated using the method described in Note 2.19.5. of the Consolidated Financial Statements of the Group for the year ended 2022. Hence management has decided to keep the weight of the adverse scenario to 30%, and correspondingly keep a reduced weight of the favourable scenario to 20%.

**31 December 2022**

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

**5. Significant and other judgements, estimates and assumptions** (continued)

**5.2 Calculation of expected credit losses** (continued)

**31 December 2021**

| Year | Scenario | Weight % | Real GDP (% change) | Unemployment rate (% of labour force) | Consumer Price Index (average % change) | RICS House Price Index (average % change) |
|---|---|---|---|---|---|---|
| 2022 | Adverse | 30.0 | -0.4 | 7.6 | 0.5 | -3.7 |
| | Baseline | 50.0 | 4.3 | 6.5 | 2.2 | 2.6 |
| | Favourable | 20.0 | 4.5 | 5.8 | 3.0 | 3.1 |
| 2023 | Adverse | 30.0 | 0.1 | 7.7 | 1.6 | -1.0 |
| | Baseline | 50.0 | 3.3 | 6.4 | 1.6 | 3.3 |
| | Favourable | 20.0 | 3.3 | 5.8 | 1.6 | 4.0 |
| 2024 | Adverse | 30.0 | 1.8 | 7.6 | 1.8 | 3.0 |
| | Baseline | 50.0 | 3.0 | 6.2 | 1.8 | 3.1 |
| | Favourable | 20.0 | 3.2 | 5.7 | 1.8 | 3.2 |
| 2025 | Adverse | 30.0 | 2.4 | 7.2 | 1.9 | 3.3 |
| | Baseline | 50.0 | 2.9 | 5.8 | 1.9 | 3.0 |
| | Favourable | 20.0 | 3.0 | 5.5 | 1.9 | 2.9 |
| 2026 | Adverse | 30.0 | 3.0 | 6.7 | 1.8 | 3.2 |
| | Baseline | 50.0 | 2.7 | 5.3 | 1.8 | 2.7 |
| | Favourable | 20.0 | 2.6 | 5.1 | 1.8 | 3.1 |

The adverse scenarios may outpace the base and favourable scenarios after the initial shock has been adjusted to and the economy starts to expand from a lower base. Thus, in the adverse scenario GDP will follow a growth trajectory that will ultimately equal and surpass the baseline before converging. Property prices are determined by multiple factors with GDP growth featuring prominently. However, the relationship between GDP growth and property prices entails a lag. Thus, property prices will initially adjust less steeply than GDP, and will start to accelerate after the recovery in GDP has been entrenched. After this point, property prices will accelerate and will match and surpass the pace in the baseline scenario, before finally converging.

The baseline scenario was updated for the 31 December 2022 reporting, considering available information and relevant developments until then, and is described next. Economic activity continued to recover strongly in 2022 driven by a steep recovery in the tourism sector after the steep contraction of 2020, and a strong growth in private consumption, despite an aggressive monetary contraction. Real GDP increased by 5.6% in 2022 and is projected to rise by 2.8% in 2023. Consumer price inflation averaged 8.1% in 2022 and expected to decelerate to 4.7% in 2023. The unemployment rate will continue to drop steadily in the medium term. Property prices will continue to rise modestly in 2023 as domestic demand remains relatively strong.

The adverse scenario is consistent with assumptions for a global economic slowdown driven by the war in Ukraine, elevated inflation and continued tight monetary policies. The Cypriot economy relies on services, particularly on tourism, international business, and information services with an outward orientation. This makes the Cypriot economy more exposed than other economies to the international environment and terms of trade shocks. Weaker external demand and more restricted domestic demand as a result of higher interest rates will lead to a slow-down of economic activity. The adverse scenario assumes a deeper impact of these conditions on the real economy than under the baseline scenario. Real GDP is expected to contract modestly by 2.0% in 2023 with the recovery remaining weak in the medium term. In the labour market the unemployment rate will rise only modestly and inflation while elevated, will be lower than under the baseline scenario. House prices will also contract in line with the contraction in real GDP.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

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

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted, if considered necessary, by the Risk Management Division, endorsed by the Group Provisions Committee and approved by the joint Risk and Audit Committee. Qualitative adjustments or overlays were applied to the positive future property value growth to restrict the level of future property price growth to 0% for all scenarios for loans and advances to customers which are secured by property collaterals.

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

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

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

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used as the basis to estimate updated market values of properties supplemented by management judgement where necessary given the difficulty in differentiating between short-term impacts and long-term structural changes and the shortage of market evidence for comparison purposes. Assumptions were made on the basis of a macroeconomic scenario for future changes in property prices, and these are capped to zero for all scenarios, in case of any future projected increase, whereas any future projected decrease is taken into consideration.

At 31 December 2022, the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation for loans and advances to customers is approximately 32% under the baseline scenario (2021: approximately 32%) excluding those classified as held for sale.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario (2021: average of seven years), excluding those classified as held for sale.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. For specific cases judgement may also be exercised over staging during the individual assessment including cases where no specific model has been developed.

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

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

*Expected lifetime of revolving facilities*
The expected lifetime of revolving facilities is based on a behavioural maturity model for revolving facilities based on the Company's available historical data, where an expected maturity for each revolving facility based on the customer's profile is assigned.

The credit conversion factor model for revolving products was calibrated in the fourth quarter of 2021, to include additional data points covering the period up to moratorium and in order to be aligned with the behavioural maturity model for revolving facilities. The impact on the ECL for the year ended 31 December 2021 was a release of ECL of €1,790 thousand. The behavioural model was updated in the second quarter of 2022 to reflect updates in customers profile whilst maintaining the same model components.

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

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

In the second quarter of 2022, following the agreement for the disposal of Helix 3 portfolio, the cure model was updated, assigning as maximum cure period an exposure of 3 years instead of 5 years from their default date. This had an ECL impact of €1.8 million charge for the year ended 31 December 2022.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

*Overlays in the context of COVID-19 and current economic conditions*
COVID-19 related management overlays applied in 2020 and up to the first six months of 2021 were removed in the third quarter of 2021, except for the overlay for exposures in the hotel and catering sector (which applied stricter customer's credit ratings thresholds for customers in this industry sector) that was removed in the second quarter of 2022 following the introduction of the new overlays described below. The impact on the ECL, from the removal of the overlay, was a release of €143 thousand for the year ended 31 December 2022 and a transfer of €45 million loans from Stage 2 to Stage 1 during the year ended 31 December 2022.

During 2022, the Company in response to uncertainties from the consequences of the Ukrainian crisis, established two new overlays in the collectively assessed population, for exposures that were considered to be the most vulnerable to the implications of the crisis, to address the increased uncertainties from the geopolitical instability, trade restrictions, disruptions in the global supply chains, increases in the energy prices and their potential negative impact in the domestic cost of living. The impact on the ECL from the application of these overlays was approximately €10 million charge for the year ended 31 December 2022 and a transfer of €148 million loans from Stage 1 to Stage 2 as at 31 December 2022.

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

Horizontal probability of default (PD) overlay was introduced in the fourth quarter of 2022 to address specifically the high inflation environment affecting the economy. With this overlay the PDs have been capped to the average of 2018/2019 level, on the basis that these years are considered as closer to a business as usual environment in terms of default rates. The impact on the ECL from the application of this overlay was €5.5 million ECL charge for the year 2022.

The Company has exercised critical judgement on a best effort basis, to consider all reasonable and supportable information available at the time of the assessment of the ECL allowance as at 31 December 2022. The Company will continue to evaluate the ECL allowance and the related economic outlook each quarter, so that any changes arising from the uncertainty on the macroeconomic outlook and geopolitical developments, impacted by the implications of the Russian invasion of Ukraine, as well as the degree of recurrence of the COVID-19 disease due to virus mutations, are timely captured.

*Portfolio segmentation*
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed on a quarterly basis by the Risk Management Division and are adjusted or enhanced, if deemed necessary. During 2021, in response to the COVID-19 pandemic, the selection criteria were expanded to include significant Stage 1 exposures within highly impacted sectors to assess potential increase in credit risk and significant exposures which transitioned from Stage 1 to Stage 2 to assess potential indications for unlikeliness to pay. The selection criteria were further enhanced in 2022 to include significant exposures to customers with passport of origin or residency in Russia, Ukraine or Belarus and/or business activity within these countries.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.2 Calculation of expected credit losses (continued)

Further details on impairment allowances and related credit information are set out in Note 43.

### 5.3 Stock of property - estimation of net realisable value

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

More details on the stock of property are presented in Note 26.

### 5.4 Provisions for pending litigation, claims, regulatory and other matters

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

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 37.

### 5.5 Tax

The Company is subject to tax in Cyprus and in the countries that it has run-down operations mainly in Greece, Russia and Romania. Estimates are required in determining the provision for taxes at the reporting date. The Company recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

*Deferred tax assets*
In the absence of a specific accounting standard dedicated to the accounting of the asset that arose pursuant to amendments in the Income Tax Law effected in March 2019 which provides for the recoverability of tax assets arising from transfer of tax losses following resolution of a credit institution, within the framework of 'The Resolution of Credit and Other Institutions', to be guaranteed (Note 15), the Company had exercised judgement in applying the guidance of IAS 12 in accounting for this asset item as the most relevant available standard. On the basis of this guidance, the Company had determined that this asset should be accounted for on the basis of IAS 12 principles relating to deferred tax assets.

For further details on such deferred tax assets refer to Note 15.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.6 Fair value of investments and derivatives

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Company use primarily observable market data and so the reliability of the fair value measurement is relatively high.

However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Company uses models with only unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further details on the fair value of assets and liabilities are disclosed in Note 20.

### 5.7 Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Company's management sets these assumptions based on market expectations at the reporting date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions, a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. The expected return on plan assets is based on the composition of each fund's plan assets, estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates are derived after consultation with the Company's advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

Further details on retirement benefits are disclosed in Note 12.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.8 Classification of properties

The Company determines whether a property is classified as investment property or stock of property as follows:

i. Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and/or capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business. Additionally they comprise leased properties which are acquired in exchange of debt and are leased out under operating leases.
ii. Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013 (except from those that are leased out and are classified as investment properties).

### 5.9 Fair value of properties held for own use and investment properties

The Company's accounting policy for property held for own use, as well as for investment property requires that it is measured at fair value. In the case of property held for own use, valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties, the fair value is established at each reporting date. Valuations are carried out by qualified valuers by applying valuation models recommended by the internationally accepted valuation standards.

In arriving at their estimates of the fair values of properties, the valuers used their market knowledge and professional judgement and do not rely solely on historical transactional comparable information, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

Further information on inputs used is disclosed in Note 20.

### 5.10 Leases

*Incremental Borrowing Rate (IBR)*
The determination of an IBR term structure which is used in the measurement of the present value of the future lease payments as described in Note 2.27 of the Consolidated Financial Statements of the Group for the year ended 31 December 2022, inherently involves significant judgement. The IBR used was based on the Cyprus Government yield curve, with no further adjustment, as a fair proxy for the Company's secured borrowing cost, for a time horizon in accordance to the lease term. The sensitivity analysis on the yield curve performed by the Company showed that the value of the lease liability and corresponding RoU assets is relatively insensitive to changes in the IBR.

*Lease term*
In determining the lease term, management considers all facts and circumstances that could make a contract enforceable, such as the economics of the contract. The following assumptions were made for the duration of lease term depending on the contract terms:

i. For cancellable leases, an assessment was made at the initial application of the standard and subsequently updated where considered appropriate, based on the horizon used in the Group's financial plan. The current medium-term financial plan assessment is for a duration of 4 years. The lease term was therefore based on an assessment of either 4 years (being the medium time horizon) or 8 years (being an assessment of a longer time horizon).
ii. For non-cancellable leases, the lease term has been assessed to be the non-cancellable period.

## 5. Significant and other judgements, estimates and assumptions (continued)

### 5.10 Leases (continued)

iii. For leases with an option for renewal, the Company's past practice regarding the period over which it has typically used properties (whether leased or owned), and its economic reasons for doing so, provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option.

*Low value assets*
The Company has exercised judgement in determining the threshold of low value assets which was set at €5,000.

Further details on the leases are disclosed in Note 41.

## 6. Interest income and income similar to interest income

*Interest income*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Financial assets at amortised cost: | | |
| - Loans and advances to customers | **336,997** | 311,904 |
| - Loans and advances to banks and central banks | **42,523** | 1,117 |
| - Debt securities | **12,113** | 7,574 |
| - Other financial assets (Note 27) | **10,889** | 5,335 |
| Debt securities at FVOCI | **9,231** | 12,528 |
| Negative interest on funding from central banks | **18,418** | 25,094 |
| | **430,171** | 363,552 |

*Income similar to interest income*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Loans and advances to customers measured at FVPL | **45,922** | 36,345 |
| Derivative financial instruments | **11,156** | 15,239 |
| | **57,078** | 51,584 |

## 7. Interest expense and expense similar to interest expense

*Interest expense*

| | **2022** | 2021 |
|---|---|---|
| Financial liabilities at amortised cost: | **€000** | €000 |
| - Customer deposits | **6,472** | 5,468 |
| - Funding from central banks and deposits by banks | **7,151** | 1,623 |
| - Debt securities in issue | **7,857** | 4,055 |
| - Subordinated liabilities | **20,213** | 23,335 |
| Negative interest on loans and advances to banks and balances with central banks | **23,184** | 31,919 |
| Interest expense on lease liabilities (Note 41) | **11** | 31 |
| | **64,888** | 66,431 |

*Expense similar to interest expense*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Derivative financial instruments | **14,840** | 25,192 |

## 8. Fee and commission income and expense

### Fee and commission income

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Credit-related fees and commissions | **62,344** | 55,157 |
| Other banking commissions | **112,785** | 101,111 |
| Fees on servicing loans disposed of under Project Helix 3/Helix 2 | **5,564** | 7,009 |
| Mutual funds and asset management fees | **2,715** | 2,856 |
| Other commissions | **3,201** | 2,675 |
| | **186,609** | 168,808 |

Mutual funds and asset management fees relate to fiduciary and other similar activities.

Credit-related fees and commissions include commissions from credit card arrangements amounting to €41,551 thousand (2021: €33,522 thousand). Other banking commissions include commissions from payment orders amounting to €27,439 thousand (2021: €27,462 thousand) and account maintenance fees of €29,266 thousand (2021: €23,388 thousand). Liquidity fee is also included within other banking commissions and amounted to €15,663 thousand (2021: €12,906 thousand).

### Fee and commission expense

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Banking commissions | **14,552** | 12,908 |
| Mutual funds and asset management fees | **309** | 311 |
| | **14,861** | 13,219 |

## 9. Net foreign exchange gains

Net foreign exchange gains comprise of the conversion of monetary assets and liabilities in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluation of foreign exchange derivatives.

## 10. Net gains/(losses) on financial instruments

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Trading portfolio: | | |
| - derivative financial instruments | **280** | 132 |
| Other investments at FVPL: | | |
| - debt securities | **4,151** | 3,509 |
| - mutual funds | **-** | (266) |
| - equity securities | **(12)** | 2,137 |
| Net loss on disposal of FVOCI debt securities | **(2,384)** | - |
| Net losses on balances with Group companies | **(61,524)** | (39,378) |
| Net loss on early redemption of subordinated liabilities (Note 31) | **-** | (12,558) |
| Net gains/(losses) on loans and advances to customers at FVPL (Note 20) | **4,050** | (17,292) |
| Revaluation of financial instruments designated as fair value hedges: | | |
| - hedging instruments (Note 19) | **65,427** | 19,878 |
| - hedged items (Note 19) | **(62,563)** | (19,327) |
| | **(52,575)** | (63,165) |

Net losses on balances with Group companies for 2022 of €61,524 thousand (2021: €39,378 thousand) relate to fair value losses on receivables from Group property companies in Cyprus of €57,399 thousand (2021: €37,338 thousand) and net losses from settlement of balances with Group property companies of €4,125 thousand (2021: €2,040 thousand).

## 11. Other income

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Dividend income (Note 18) | **83** | 372 |
| Loss on sale and write-off of property and equipment and intangible assets | **(14)** | (13) |
| Rental income from investment properties | **1,648** | 1,754 |
| Rental income from stock of property | **74** | 35 |
| Net gains on disposal/dissolution of subsidiaries and associates | **781** | 108 |
| Other income | **3,592** | 2,556 |
| | **6,164** | 4,812 |

Dividend income relates to Cyprus operations.

The net gains on disposal/dissolution of subsidiaries for the year ended 31 December 2022 relate to the gain on the disposal of the subsidiary Yossi Properties Ltd (Note 48) (2021: net gains relate mainly to the loss on the disposal of the subsidiary Global Balanced Fund of funds Salamis Variable Capital Investment Company PLC (Note 48) and to the gain on disposal of the associate Apollo Global Equity Fund of Funds Variable Capital Investment Company Plc (Note 23)).

## 12. Staff costs

**Staff costs**

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Salaries | **133,033** | 142,657 |
| Employer's contributions to state social insurance | **24,447** | 25,511 |
| Retirement benefit plan costs | **11,265** | 12,367 |
| Share-based benefits-expenses | **322** | - |
| | **169,067** | 180,535 |
| Restructuring costs - voluntary exit plans and other termination benefits | **98,356** | 15,033 |
| | **267,423** | 195,568 |

During the year ended 31 December 2022, an amount of €1,719 thousand (2021: €1,235 thousand) relating to staff costs has been capitalised as internally developed computer software (Note 25).

The number of persons employed by the Company as at 31 December 2022 was 2,483 (2021: 3,012) and includes 44 persons that have accepted the voluntary exit plan (VEP) and left the Company in early 2022.

In July 2022, the Company completed a VEP through which 542 of the Company's full time employees were approved to leave at a total cost of €98,356 thousand.

In December 2021, the Company completed a VEP, through which 96 of the Company's full-time employees were approved to leave at a total cost of €15,033 thousand.

In July 2021, the Company reached an agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement for the years 2021 and 2022. The agreement relates to certain changes including the introduction of a new pay grading structure linked to the value of each position of employment, and of a performance related pay component as part of the annual salary increase.

### 12.1 Retirement benefits

In addition to the employer's contributions to state social insurance, the Company operates plans for the provision of additional retirement benefits as described below:

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Defined benefit plans | **658** | 87 |
| Defined contribution plans | **10,607** | 12,280 |
| | **11,265** | 12,367 |

*Cyprus*
The main retirement plan for the Company's permanent employees in Cyprus (99% of total Company employees) is a defined contribution plan. This plan provided for employer contributions of 9% for the period 1 January 2021 to 31 August 2021, revised to 8% from 1 September 2021 and employee contributions of 3%-10% of the employees' gross salaries for both 2022 and 2021. This plan is managed by an Administrative Committee appointed by the members.

In previous years a small number of employees who did not participate in the main retirement plan, were members of a pension scheme that was closed to new entrants and could have received part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed currently of representatives of the employer. The pension scheme is in the process of liquidation as the last member exited the plan during the year ended 31 December 2022.

**12. Staff costs** (continued)

**12.1 Retirement benefits** (continued)

*United Kingdom*
The Company has assumed in prior years the obligation of the defined benefit plan of its employees in the United Kingdom which was closed in December 2008 to future accrual of benefits for active members.

*Analysis of the results of the actuarial valuations for the defined benefit plans*

| **Amounts recognised in the balance sheet** | **2022 €000** | 2021 €000 |
|---|---|---|
| Liabilities (Note 32) | **3,694** | - |

Two of the plans have a total funded status at a surplus of €10,739 thousand one of which is under liquidation with funded status surplus of €1,600 thousand (2021: two plans with surplus €5,462 thousand) that is not recognised as an asset on the basis that the Company has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

The amounts recognised in the balance sheet and the movement in the net defined benefit obligation for the years ended 31 December 2022 and 2021 are presented below:

**12. Staff costs** (continued)

**12.1 Retirement benefits** (continued)

| | Present value of obligation | Fair value of plan assets | Net amount before impact of asset ceiling | Impact of minimum funding requirement/ asset ceiling | Net defined benefit liability |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| **1 January 2022** | 80,636 | (86,098) | (5,462) | 5,462 | **-** |
| Current service cost | 716 | - | 716 | - | **716** |
| Net interest expense/(income) | 1,397 | (1,455) | (58) | - | **(58)** |
| **Total amount recognised in the income statement** | 2,113 | (1,455) | 658 | - | **658** |
| Remeasurements: | | | | | |
| Return on plan assets, excluding amounts included in net interest expense | - | 29,523 | 29,523 | - | **29,523** |
| Actuarial loss from changes in financial assumptions | (30,663) | - | (30,663) | - | **(30,663)** |
| Demographic assumptions | (721) | - | (721) | - | **(721)** |
| Experience adjustments | 2,587 | - | 2,587 | - | **2,587** |
| Change in asset ceiling | - | - | - | 5,617 | **5,617** |
| **Total amount recognised in OCI** | (28,797) | 29,523 | 726 | 5,617 | **6,343** |
| Exchange differences | (4,077) | 4,285 | 208 | (339) | **(131)** |
| Contributions: | | | | | |
| Employer | - | (3,176) | (3,176) | - | **(3,176)** |
| Benefits paid from the plans | (4,904) | 4,904 | - | - | **-** |
| **31 December 2022** | **44,971** | **(52,017)** | **(7,046)** | **10,740** | **3,694** |

**12. Staff costs** (continued)

**12.1 Retirement benefits** (continued)

| | Present value of obligation | Fair value of plan assets | Net amount before impact of asset ceiling | Impact of minimum funding requirement/ asset ceiling | Net defined benefit liability |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| **1 January 2021** | 78,079 | (74,277) | 3,802 | 2,759 | **6,561** |
| Net interest expense/(income) | 1,172 | (1,085) | 87 | - | **87** |
| **Total amount recognised in the income statement** | 1,172 | (1,085) | 87 | - | **87** |
| Remeasurements: | | | | | |
| Return on plan assets, excluding amounts included in net interest expense | - | (5,004) | (5,004) | - | **(5,004)** |
| Actuarial loss from changes in financial assumptions | (1,333) | - | (1,333) | - | **(1,333)** |
| Demographic assumptions | (170) | - | (170) | - | **(170)** |
| Experience adjustments | 40 | - | 40 | - | **40** |
| Change in asset ceiling | - | - | - | 2,703 | **2,703** |
| **Total amount recognised in OCI** | (1,463) | (5,004) | (6,467) | 2,703 | **(3,764)** |
| Exchange differences | 5,249 | (4,994) | 255 | - | **255** |
| Contributions: | | | | | |
| Employer | - | (3,139) | (3,139) | - | **(3,139)** |
| Benefits paid from the plans | (2,401) | 2,401 | - | - | **-** |
| **31 December 2021** | **80,636** | **(86,098)** | **(5,462)** | **5,462** | **-** |

## 12. **Staff costs** (continued)

### 12.1 **Retirement benefits** (continued)

The actual return on plan assets for year 2022 was a loss of €28,012 thousand (2021: gain of €6,089 thousand) mainly due to the reduction in bond and equity prices during the year.

The assets of funded plans are generally held in separately administered entities, either as specific assets or as a proportion of a general fund, or as insurance contracts and are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Company is exposed to a number of risks as outlined below:

| | |
|---|---|
| Interest rate risk | The Company is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities. |
| Changes in bond yields | A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings. |
| Inflation risk | The Company faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases) exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increases with increasing inflation) could be used to better match the expected increases in liabilities. |
| Asset volatility | The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, a deficit will be created. |

The major categories of plan assets as a percentage of total plan assets are as follows:

| | **2022** | 2021 |
|---|---|---|
| Equity securities | **13%** | 20% |
| Debt securities | **59%** | 47% |
| Loans and advances to banks | **6%** | 12% |
| Funds | **22%** | 21% |
| | **100%** | 100% |

The Company expects to make additional contributions to defined benefit plans of €3,046 thousand during 2023.

At the end of the reporting period, the average duration of the defined benefit obligations was 13.4 years (2021: 18.8 years).

**12. Staff costs** (continued)

**12.1 Retirement benefits** (continued)

*Principal actuarial assumptions used in the actuarial valuations*
The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Company during 2022 and 2021 are set out below:

| **2022** | **Cyprus** | **UK** |
|---|---|---|
| Discount rate | **3.85%** | **5.00%** |
| Inflation rate | **2.50%** | **3.10%** |
| Future salary increases | **2.50%** | **n/a** |
| Rate of pension increase | **n/a** | **2.90%** |
| Life expectancy for pensioners at age 60 | **23.5 years M<br>29.6 years F** | **n/a** |
| Life expectancy for pensioners at age 65 | **n/a** | **23.0 years M<br>24.7 years F** |
| | | |
| **2021** | | |
| Discount rate | 0.88% | 1.80% |
| Inflation rate | 1.50% | 3.25% |
| Future salary increases | 2.00% | n/a |
| Rate of pension increase | 2.00% | 3.10% |
| Life expectancy for pensioners at age 60 | 23.5 years M<br>29.6 years F | n/a |
| Life expectancy for pensioners at age 65 | n/a | 22.9 years M<br>24.3 years F |

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date of high quality corporate bonds of suitable maturity and currency. For the Company's plans in the Eurozone which comprise 0% of the defined benefit obligations, the Company adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Company's plan in the UK which comprises 100% of the defined benefit obligations, the Company adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Company, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

## 12. **Staff costs** (continued)

### 12.1 **Retirement benefits** (continued)

The impact of significant assumptions' fluctuations on the defined benefit obligation as at 31 December 2022 and 2021 is presented below:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| **Variable** | **Change +0.5%** | **Change -0.5%** | Change +0.5% | Change -0.5% |
| Discount rate | **-6.5%** | **6.9%** | -9.1% | 9.7% |
| Inflation growth rate | **3.2%** | **-3.8%** | 5.3% | -5.2% |
| Pension growth rate | **0.1%** | **-0.1%** | 0.1% | -0.1% |
| | **Plus 1 year** | **Minus 1 year** | Plus 1 year | Minus 1 year |
| Life expectancy | **4.4%** | **-4.4%** | 3.4% | -3.4% |

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

### 12.2 **Share-based compensation plan**

*Long-Term Incentive Plan*
During the Annual General Meeting of the shareholders of the BOCH which took place on 20 May 2022, a special resolution was approved for the establishment and implementation of the share based Long-Term Incentive Plan of Bank of Cyprus Holdings Public Limited Company (the ‘2022 LTIP’).

The 2022 LTIP is a share based compensation plan for executive directors and senior management of the Group. The 2022 LTIP provides for an award in the form of ordinary shares of BOCH based on certain non-market performance and service vesting conditions. Performance will be measured over a 3-year period. The performance conditions are set by the Human Resources & Remuneration Committee (HRRC) each year and may be differentiated to reflect the Company’s strategic targets and employee's personal performance, at HRRC's discretion. Performance will be assessed against an evaluation scorecard consistent with the Group’s Medium Term Strategic Targets containing both financial and non-financial objectives, and including targets in the areas of: (i) Profitability; (ii) Asset quality; (iii) Capital adequacy; (iv) Risk control & compliance; and (v) Environmental, Social and Governance ('ESG'). The awards ordinarily vest in six tranches, with 40% vesting in the year following the year the performance period ends and the remaining 60% vesting in tranches (12%), on each of the first, second, third, fourth and fifth anniversary date of the first vesting date. For any award to vest the employee must be in the employment of the Group up until the date of the vesting of such an award. Under certain circumstances the HRRC has the discretion to determine whether the award will lapse and/or the extent to which the award will be vested.

The maximum number of shares that may be issued pursuant to the 2022 LTIP until the tenth anniversary of the relevant resolution shall not exceed 5% of the issued ordinary share capital of BOCH, as at the date of the resolution (being 22,309,996 ordinary shares of €0.10 each), as adjusted for any issuance or cancellation of shares subsequently to the date of the resolution (excluding any issuances of shares pursuant to the 2022 LTIP).

The pre-existing Share Option Plan, which was operating at the level of BOCH, has been superseded by the 2022 LTIP.

## 12. **Staff costs** (continued)

### 12.2 **Share-based compensation plan** (continued)

On 22 December 2022 (grant date) 819,860 share awards under the 2022 LTIP were granted by BOCH to 22 eligible employees (2021: nil) comprising the Extended Executive Committee of the Group. The awards are subject to a three year performance period (2022-2024) (with all performance conditions being non-market performance conditions) and thereon vest in six tranches, with the first tranche vesting in the year following the year the performance period ends and the last tranche vesting on the fifth anniversary of the first vesting date. Vesting is also subject to service conditions. Awards are subject to potential forfeiture under certain leaver scenarios.

The following table presents movements in outstanding share-based awards during 2022 and 2021.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number of shares** | **Weighted average grant date fair value** | Number of shares | Weighted average grant date fair value |
| | | **€** | | € |
| As at 1 January | **-** | **-** | - | - |
| Granted during the year | **819,860** | **1.69** | - | - |
| Vested during the year | **-** | **-** | - | - |
| Forfeited during the year | **-** | **-** | - | - |
| **31 December** | **819,860** | | - | |

**Assumptions as at 31 December 2022**
The fair value calculations at 31 December 2022 for grants made in the year are calculated, using Black-Scholes model. As the award is a share award (and does not contain any market based performance conditions) the fair value is based on the share price at the date of the grant.

## 13. **Other operating expenses**

| | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Repairs and maintenance expenses | **28,610** | 27,754 |
| Other property-related costs | **11,570** | 10,024 |
| Consultancy, legal and other professional services fees | **17,001** | 12,229 |
| Insurance | **6,174** | 5,779 |
| Advertising and marketing | **8,540** | 8,160 |
| Depreciation of property and equipment (Note 24) | **12,212** | 13,351 |
| Amortisation of intangible assets (Note 25) | **14,405** | 14,978 |
| Communication expenses | **5,462** | 6,182 |
| Printing and stationery | **1,542** | 1,689 |
| Cash transfer expenses | **2,953** | 2,664 |
| Other operating expenses | **17,845** | 20,746 |
| | **126,314** | 123,556 |
| Advisory and other restructuring costs | **14,136** | 23,124 |
| | **140,450** | 146,680 |

## 13. Other operating expenses (continued)

Advisory and other restructuring costs comprise mainly fees to external advisors in relation to: (i) the transformation program and other strategic projects of the Company and (ii) the disposal of operations and non-core assets.

During the year ended 31 December 2022, the Company recognised €5,988 thousand relating to the depreciation of right-of-use assets, included within 'Depreciation of property and equipment' (2021: €7,077 thousand) (Note 41).

Within total other operating expenses an amount of €533 thousand (2021: €486 thousand) relates to investment property that generated rental income.

Special levy on deposits and other levies/contributions as presented in the income statement are set out below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Special levy on deposits of credit institutions in Cyprus | **21,499** | 19,936 |
| Single Resolution Fund contribution | **5,779** | 5,209 |
| Guarantee fee on annual deferred tax credit (Note 15) | **4,795** | 5,300 |
| Contribution to Deposit Guarantee Fund | **6,419** | 5,905 |
| | **38,492** | 36,350 |

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

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

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Company, for audit and other professional services provided both in Cyprus and overseas, as follows:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Audit of the financial statements of the Company | **1,460** | 1,174 |
| Other assurance services | **450** | 612 |
| Tax compliance and advisory services | **158** | 198 |
| Other non-audit services | **193** | 71 |
| | **2,261** | 2,055 |

### 13. Other operating expenses (continued)

The following table discloses the fees (including taxes) to the independent auditors of the Company, for the audit and other professional services provided both in Cyprus and overseas for the Group.

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Audit of the individual and the Group financial statements | **2,163** | 1,628 |
| Other assurance services | **504** | 659 |
| Tax compliance and advisory services | **282** | 298 |
| Other non-audit services | **199** | 78 |
| | **3,148** | 2,663 |

Other assurance services include fees relating to the interim review.

### 14. Credit losses on financial instruments and impairment net of reversals of non-financial assets

| | **2022** | 2021 |
|---|---|---|
| Credit losses on financial instruments | **€000** | €000 |
| *Credit losses to cover credit risk on loans and advances to customers* | | |
| Impairment net of reversals on loans and advances to customers (Note 43.6) | **63,595** | 28,818 |
| Recoveries of loans and advances to customers previously written off | **(11,919)** | (11,907) |
| Changes in expected cash flows | **7,948** | 15,951 |
| Financial guarantees and commitments (Notes 43.5.1 and 43.5.2) | **(4,516)** | 2,341 |
| | **55,108** | 35,203 |
| *Credit losses of other financial instruments* | | |
| Amortised cost debt securities (Note 18) | **701** | (32) |
| FVOCI debt securities (Note 18) | **(23)** | (84) |
| Balances with Group companies (Note 22) | **7,353** | 4,464 |
| Loans and advances to banks (Note 17) | **(48)** | (13) |
| Balances with central banks (Note 17) | **193** | - |
| Other financial assets (Note 27) | **72** | 5,828 |
| | **8,248** | 10,163 |
| | **63,356** | 45,366 |

| | | |
|---|---|---|
| *Impairment net of reversals on non-financial assets* | | |
| Stock of property (Note 26) | **6,118** | 25,012 |
| Investments in subsidiaries (Note 48) | **2,632** | 5,003 |
| Other non-financial assets | **(10)** | 2,580 |
| | **8,740** | 32,595 |

The impairment of investment in subsidiaries for 2022 amounts to €2,632 thousand (2021: €5,003 thousand) and represents the difference between the carrying value of the investment in the subsidiary compared to its recoverable amount.

The impairment of balances with Group companies which are measured at amortised cost is computed following the same ECL principles adopted by the Group in preparing the Consolidated Financial Statements of the Group.

## 15. Income tax

| | 2022 €000 | 2021 €000 |
|---|---|---|
| Current tax | **25,450** | - |
| Cyprus special defence contribution | **29** | 37 |
| Deferred tax (credit)/charge | **(575)** | 126 |
| Prior years' tax adjustments | **1,723** | - |
| Other tax charges | **-** | 6 |
| | **26,627** | 169 |

The reconciliation between the income tax expense and the profit before tax as estimated using the current income tax rates is set out below:

| | 2022 €000 | 2021 €000 |
|---|---|---|
| Profit before tax | **67,572** | 20,350 |
| Income tax at the normal tax rates in Cyprus | **8,447** | 2,544 |
| Income tax effect of: | | |
| - expenses not deductible for income tax purposes | **31,846** | 13,146 |
| - income not subject to income tax | **(14,843)** | (15,690) |
| - deferred tax (credit)/charge | **(575)** | 126 |
| | **24,875** | 126 |
| Prior years' tax adjustments | **1,723** | - |
| Cyprus special defence contribution | **29** | 37 |
| Other tax charges | **-** | 6 |
| | **26,627** | 169 |

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2021: 12.5%).

Special defence contribution is payable on rental income at a rate of 3% (2021: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2021: 30%).

The Company's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2022 were: Greece 22% (2021: 22%).

The Company is subject to income taxes in the various jurisdictions in which it operates and the calculation of the Company's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Company has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**15. Income tax** (continued)

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

**Deferred tax**

The net deferred tax assets arise from:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Difference between capital allowances and depreciation | **(9,349)** | (9,924) |
| Property revaluation | **(10,295)** | (10,511) |
| Unutilised income tax losses carried forward (guaranteed deferred tax asset) | **227,455** | 265,364 |
| **Net deferred tax assets** | **207,811** | 244,929 |

The net deferred tax assets comprise:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Deferred tax assets | **227,455** | 265,364 |
| Deferred tax liabilities | **(19,644)** | (20,435) |
| **Net deferred tax assets** | **207,811** | 244,929 |

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

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| 1 January | **244,929** | 320,739 |
| Deferred tax recognised in the income statement | **575** | (126) |
| Deferred tax recognised in the statement of comprehensive income | **216** | 134 |
| Transfer to current tax receivables following conversion into tax credit | **(37,909)** | (75,818) |
| **31 December** | **207,811** | 244,929 |

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

The analysis of the net deferred tax (credit)/charge recognised in the income statement is set out below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Difference between capital allowances and depreciation | **(575)** | 126 |
| | **(575)** | 126 |

## 15. **Income tax** (continued)

The analysis of the net deferred tax recognised in other comprehensive income in the statement of comprehensive income is set out below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Timing differences on property revaluation-income | **216** | 134 |

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

The main provisions of the legislation are set out below:

i. The amendments allow for the conversion of specific tax losses into tax credits.
ii. The Law applies only to tax losses transferred following resolution of a credit institution within the framework of 'The Resolution of Credit and Other Institutions Law'.
iii. The losses are capped to the amount of Deferred Tax Assets (DTA) recognised on the balance sheet of the audited financial statements of the acquiring credit institution in the year of acquisition. Tax losses in excess of the capped amount could only be utilised in cases involving transfers of tax losses in relation to tax reorganisations, completed before 1 October 2019. Post 1 October 2019, any excess tax losses expired.
iv. Acquired tax losses are converted into 15 equal annual instalments or into 11 equal annual instalments for acquired losses from credit institutions which were in resolution pre 31 December 2017.
v. Each annual instalment can be claimed as a deductible expense in the determination of the taxable income for the relevant year. Annual instalments are capped and cannot create additional losses for the credit institution.
vi. Any amount of annual instalment not utilised is converted into a tax credit (with reference to the applicable tax rate enacted at the time of the conversion) and it can be utilised in the tax year following the tax year to which this tax credit relates to. The tax credit can be used against a tax liability (Corporate Income Tax Law, VAT Law or Bank levy Law) of the credit institution or any other eligible subsidiary for group relief. Any unutilised tax credit in the relevant year is converted into a receivable from the Cyprus Government.
vii. In financial years where a credit institution has accounting losses the amount of the annual instalment is recalculated. Upon recalculation, the mechanics outlined above remain unchanged.
viii. In case a credit institution in scope goes into liquidation the total amount of unused annual instalments are converted to tax credits and immediately become a receivable from the Government.
ix. A guarantee fee on annual tax credit is payable annually by the credit institution to the Government.

In response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government has proceeded with the adoption of modifications to the Law, including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already provided for in the Law, to maintain the conversion of such DTAs into tax credits. The relevant amendments were voted by the Cyprus Parliament in May 2022 and have become effective since. As prescribed by the amendments in the Law, the annual fee is to be determined by the Cyprus Government on an annual basis, providing however, for such fee charge to be set at a minimum fee of 1.5% of the annual instalment and can range up to a maximum amount of €10,000 thousand per year, and also allowing for a higher amount to be charged in the year the amendments are effective (i.e. in 2022).

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

## 15. Income tax (continued)

As a result of the above Law, the Company has DTA amounting to €227,455 thousand as at 31 December 2022 (2021: €265,364 thousand) that meet the requirements under this Law, the recovery of which is guaranteed. On an annual basis an amount is converted to annual tax credit and is reclassified from the DTA to current tax receivables.

The DTA subject to the Law is accounted for on the same basis, as described in Note 2.13 of the Consolidated Financial Statements of the Group for the year ended 2022.

The Company in prior years, in anticipation of modifications in the Law, acknowledged that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The Company estimates that such fees could range up to €5,300 thousand per year (for each tax year in scope i.e. since 2018) although the Company understands that such fee may fluctuate annually as to be determined by the Ministry of Finance. An amount of €4,795 thousand that relates to the tax credit of year 2022 (2021: €5,300 thousand) was recorded during the year ended 31 December 2022. In the third quarter of 2022, the Company has been levied an amount for years 2018-2021 within the provisions level maintained.

*Accumulated income tax losses*

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

| | Total income tax losses | Income tax losses for which a deferred tax asset was recognised | Income tax losses for which no deferred tax asset was recognised |
|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** |
| Expiring within 5 years | **44,261** | **-** | **44,261** |
| Utilisation in annual instalments up to 2028 | **1,819,636** | **1,819,636** | **-** |
| | **1,863,897** | **1,819,636** | **44,261** |
| | | | |
| **2021** | | | |
| Expiring within 5 years | 250,924 | - | 250,924 |
| Utilisation in annual instalments up to 2028 | 2,122,909 | 2,122,909 | - |
| | 2,373,833 | 2,122,909 | 250,924 |

## 16. Earnings per share

| **Basic and diluted profit per share attributable to the owners of the Company** | **2022** | 2021 |
|---|---|---|
| Profit for the year attributable to the owners of the Company (€ thousand) | **40,945** | 20,181 |
| Weighted average number of shares in issue during the year, excluding treasury shares (thousand) | **9,597,945** | 9,597,945 |
| Basic and diluted profit per share (€ cent) | **0.4** | 0.2 |

## 17. Cash, balances with central banks and loans and advances to banks

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Cash | **91,707** | 142,902 |
| Balances with central banks | **9,475,581** | 9,087,815 |
| Allowance for expected credit losses (Note 14) | **(193)** | - |
| | **9,567,095** | 9,230,717 |

| | | |
|---|---|---|
| Loans and advances to banks | **166,697** | 247,749 |
| Allowance for expected credit losses (Note 14) | **(8)** | (56) |
| | **166,689** | 247,693 |

An analysis of the movement of the gross carrying amount of balances with central banks is presented in the table below:

| | **2022** | 2021 |
|---|---|---|
| **Gross carrying amount** | **€000** | €000 |
| 1 January | **9,087,815** | 5,513,476 |
| Net increase | **387,766** | 3,574,339 |
| **31 December** | **9,475,581** | 9,087,815 |

Balances with central banks are classified as Stage 1.

The ECL charge (Note 14) and ECL allowance on balances with central banks for the year ended and as at 31 December 2022 amounted to €193 thousand (2021: nil).

An analysis of the movement of the gross carrying amount and ECL of loans and advances to banks is presented in the table below:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **ECL** | Gross carrying amount | ECL |
| | **€000** | **€000** | €000 | €000 |
| 1 January | **247,749** | **(56)** | 361,347 | (69) |
| Net decrease | **(81,052)** | **-** | (113,598) | - |
| Changes to models and inputs used for ECL calculation (Note 14) | **-** | **48** | - | 13 |
| **31 December** | **166,697** | **(8)** | 247,749 | (56) |

All loans and advances to banks are classified as Stage 1.

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2022 which amount to €114,537 thousand (2021: €166,987 thousand) (Note 40).

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 43.11.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

## 18. Investments

The analysis of the Company's Investments is presented in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Investments at FVPL | **8,712** | 4,865 |
| Investments at FVOCI | **456,598** | 734,059 |
| Investments at amortised cost | **2,046,119** | 1,191,274 |
| | **2,511,429** | 1,930,198 |

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

| | **2022** | 2021 |
|---|---|---|
| **Investments pledged as collateral** | **€000** | €000 |
| Investments at FVOCI | **60,974** | 488,806 |
| Investments at amortised cost | **223,369** | 771,352 |
| | **284,343** | 1,260,158 |

Investments pledged as collateral as at 31 December 2022 and 2021 related to debt securities collaterised mainly for the additional amounts borrowed from the ECB Targeted Longer-Term Refinancing Operations (TLTRO III) (Note 29). Encumbered assets are disclosed in Note 45.

The maximum exposure to credit risk for debt securities is disclosed in Note 43.1 and the debt securities price risk sensitivity analysis is disclosed in Note 44.

The credit rating analysis of investments is disclosed in Note 43.11.

### Investments at fair value through profit or loss

| | **Investments mandatorily measured at FVPL** | |
|---|---|---|
| | **2022** | 2021 |
| | **€000** | €000 |
| Debt and other non-equity securities | **7,870** | 4,009 |
| Equity securities | **842** | 856 |
| | **8,712** | 4,865 |

The debt securities which are measured at FVPL are mandatorily classified, because they failed to meet the SPPI Criteria.

### Investments at FVOCI

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Debt securities | **446,416** | 723,759 |
| Equity securities (including preference shares) | **10,182** | 10,300 |
| | **456,598** | 734,059 |

## 18. Investments (continued)

**Investments at amortised cost**

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Debt securities | **2,046,119** | 1,191,274 |

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

*Equity securities*

| Equity securities 2022 | FVPL €000 | FVOCI €000 | Total €000 |
|---|---|---|---|
| Listed on the Cyprus Stock Exchange | - | 1,329 | **1,329** |
| Listed on other stock exchanges | 842 | 68 | **910** |
| Unlisted | - | 8,785 | **8,785** |
| | **842** | **10,182** | **11,024** |

| 2021 | FVPL €000 | FVOCI €000 | Total €000 |
|---|---|---|---|
| Listed on the Cyprus Stock Exchange | - | 1,746 | **1,746** |
| Listed on other stock exchanges | 856 | 76 | **932** |
| Unlisted | - | 8,478 | **8,478** |
| | **856** | **10,300** | **11,156** |

The Company irrevocably made the election to classify its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value amounts to €10,182 thousand at 31 December 2022 and is equal to their fair value (2021: €10,300 thousand).

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

Dividend income amounting to €83 thousand has been received and recognised for 2022 in other income (2021: €372 thousand) (Note 11).

During the years ended 31 December 2022 and 31 December 2021 no material equity investments measured at FVOCI have been disposed of. During the year there were transfers from OCI to retained earnings of €412 thousand (2021: nil) relating to investments disposed in prior years.

*Debt securities and other non-equity securities*

| Analysis by issuer type | FVPL | FVOCI | Amortised cost | Total |
|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | **€000** |
| Cyprus government | - | 308,303 | 521,322 | **829,625** |
| Other governments | - | 22,616 | 402,844 | **425,460** |
| Financial institutions | - | 115,497 | 722,522 | **838,019** |
| Other financial corporations | 7,870 | - | 36,547 | **44,417** |
| Supranational organisations | - | - | 293,834 | **293,834** |
| Other non-financial corporations | - | - | 69,050 | **69,050** |
| | **7,870** | **446,416** | **2,046,119** | **2,500,405** |

## 18. **Investments** (continued)

| 2021 | FVPL | FVOCI | Amortised cost | **Total** |
|---|---|---|---|---|
| | €000 | €000 | €000 | **€000** |
| Cyprus government | - | 405,951 | 326,953 | **732,904** |
| Other governments | - | 87,295 | 223,813 | **311,108** |
| Financial institutions | 500 | 230,513 | 397,775 | **628,788** |
| Other financial corporations | 3,509 | - | 33,507 | **37,016** |
| Supranational organisations | - | - | 209,226 | **209,226** |
| | **4,009** | **723,759** | **1,191,274** | **1,919,042** |

| **Geographic dispersion by country of issuer 2022** | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| | €000 | €000 | €000 | **€000** |
| Cyprus | - | 308,303 | 531,611 | **839,914** |
| Greece | - | 14,987 | 43,276 | **58,263** |
| Germany | - | - | 121,132 | **121,132** |
| France | - | 58,134 | 162,405 | **220,539** |
| Other European Union countries | - | 32,442 | 370,728 | **403,170** |
| United Kingdom | - | - | 23,128 | **23,128** |
| USA and Canada | 7,870 | 4,959 | 238,802 | **251,631** |
| Other countries | - | 27,591 | 261,203 | **288,794** |
| Supranational organisations | - | - | 293,834 | **293,834** |
| | **7,870** | **446,416** | **2,046,119** | **2,500,405** |

| **2021** | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| | €000 | €000 | €000 | **€000** |
| Cyprus | 500 | 405,951 | 326,953 | **733,404** |
| Germany | - | 3,598 | 67,747 | **71,345** |
| France | - | 66,116 | 100,388 | **166,504** |
| Other European Union countries | - | 138,969 | 239,781 | **378,750** |
| United Kingdom | - | - | 25,043 | **25,043** |
| USA and Canada | 3,509 | 72,237 | 111,961 | **187,707** |
| Other countries | - | 36,888 | 110,175 | **147,063** |
| Supranational organisations | - | - | 209,226 | **209,226** |
| | **4,009** | **723,759** | **1,191,274** | **1,919,042** |

| **Listing analysis 2022** | **FVPL** | **FVOCI** | **Amortised cost** | **Total** |
|---|---|---|---|---|
| | €000 | €000 | €000 | **€000** |
| Listed on the Cyprus Stock Exchange | - | - | 29,849 | **29,849** |
| Listed on other stock exchanges | - | 446,416 | 2,016,270 | **2,462,686** |
| Unlisted | 7,870 | - | - | **7,870** |
| | **7,870** | **446,416** | **2,046,119** | **2,500,405** |

**18. Investments** (continued)

| 2021 | FVPL €000 | FVOCI €000 | Amortised cost €000 | Total €000 |
|---|---|---|---|---|
| Listed on the Cyprus Stock Exchange | - | - | 48,463 | **48,463** |
| Listed on other stock exchanges | - | 723,759 | 1,142,811 | **1,866,570** |
| Unlisted | 4,009 | - | - | **4,009** |
| | **4,009** | **723,759** | **1,191,274** | **1,919,042** |

The Company uses fair value hedging to manage the interest rate risk in relation to its FVOCI bonds (Note 19).

An analysis of the movement of debt securities at FVOCI before ECL and the changes on the ECL are presented in the table below:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Gross debt securities €000** | **ECL €000** | Gross debt securities €000 | ECL €000 |
| 1 January | 724,439 | (680) | 644,960 | (764) |
| New assets acquired in the year | 27,972 | - | 116,291 | - |
| Assets derecognised and redeemed in the year (Note 14) | (243,539) | 35 | (31,094) | 4 |
| Interest accrued and amortisation | (6,119) | - | (2,448) | - |
| Foreign exchange adjustments | 11,190 | - | 14,852 | - |
| Changes to models and inputs used for ECL calculations (Note 14) | - | (12) | - | 80 |
| Changes in fair value | (66,870) | - | (18,122) | - |
| **31 December** | **447,073** | **(657)** | 724,439 | (680) |

All debt securities measured at FVOCI are classified as Stage 1.

An analysis of changes in the gross carrying amount (before ECL) of the debt securities at amortised cost by staging is presented in the table below:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Stage 1 €000** | **Stage 2 €000** | **Total €000** | Stage 1 €000 | Stage 2 €000 | Total €000 |
| 1 January | **1,143,533** | **48,559** | **1,192,092** | 984,739 | 48,981 | 1,033,720 |
| New assets acquired in the year | **1,073,058** | **-** | **1,073,058** | 503,089 | - | 503,089 |
| Assets derecognised and redeemed in the year | **(164,874)** | **(47,100)** | **(211,974)** | (348,151) | - | (348,151) |
| Fair value due to hedging relationship | **(10,527)** | **(197)** | **(10,724)** | (2,156) | (392) | (2,548) |
| Interest accrued and amortisation | **(179)** | **(1,262)** | **(1,441)** | (4,744) | (30) | (4,774) |
| Foreign exchange adjustments | **6,627** | **-** | **6,627** | 10,756 | - | 10,756 |
| **31 December** | **2,047,638** | **-** | **2,047,638** | 1,143,533 | 48,559 | 1,192,092 |

## 18. Investments (continued)

An analysis of changes on the respective ECL is presented in the table below:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Total** | Stage 1 | Stage 2 | Total |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| 1 January | **(722)** | **(96)** | **(818)** | (545) | (305) | (850) |
| Assets derecognised or redeemed (Note 14) | **11** | **96** | **107** | 155 | - | 155 |
| Changes to models and inputs used for ECL calculation (Note 14) | **(808)** | **-** | **(808)** | (332) | 209 | (123) |
| **31 December** | **(1,519)** | **-** | **(1,519)** | (722) | (96) | (818) |

There were no reclassifications of investments during the year ended 31 December 2022 and 2021.

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €1,329 thousand at 31 December 2022 (2021: €1,746 thousand). The fair value loss that would have been recognised in the income statement during the year ended 31 December 2022 if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €417 thousand (2021: €289 thousand).

## 19. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | | **Fair value** | | | Fair value | |
| | **Contract amount** | **Assets** | **Liabilities** | Contract amount | Assets | Liabilities |
| | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| **Trading derivatives** | | | | | | |
| Forward exchange rate contracts | **13,239** | **103** | **123** | 115,441 | 81 | 779 |
| Currency swaps | **1,251,581** | **293** | **10,316** | 994,213 | 4,388 | 1,348 |
| Interest rate swaps | **14,806** | **437** | **420** | 21,690 | 86 | 61 |
| Currency options | **352** | **287** | **65** | 83 | 62 | 21 |
| Interest rate caps/floors | **171,864** | **3,094** | **3,094** | 518,950 | 223 | 218 |
| | **1,451,842** | **4,214** | **14,018** | 1,650,377 | 4,840 | 2,427 |
| **Derivatives qualifying for hedge accounting** | | | | | | |
| Fair value hedges - interest rate swaps | **803,513** | **43,939** | **2,151** | 700,835 | 1,813 | 30,025 |
| **Total** | **2,255,355** | **48,153** | **16,169** | 2,351,212 | 6,653 | 32,452 |

The use of derivatives is an integral part of the Company's activities. Derivatives are used to manage the Company's own exposure to fluctuations in interest rates and foreign currency exchange rates. Derivatives are also sold to customers as risk management products.

**19. Derivative financial instruments** (continued)

Credit risk for derivatives arises from the possibility of the counterparty's failure to meet the terms of any contract. In the case of derivatives, credit losses are a significantly smaller amount compared to the derivatives' notional amount. In order to manage credit risk, the Company sets derivative limits based on the creditworthiness of the involved counterparties and uses credit mitigation techniques such as netting and collateralisation.

Interest rate risk is explained in Note 44. The interest rate risk is managed through the use of own balance sheet solutions such as plain vanilla interest rate swaps and interest rate options. In fair value hedges of interest rate risk, the Company converts fixed rate assets/liabilities to floating. In cash flow hedging of interest rate risk, the Company converts floating rate assets/liabilities to fixed.

Currency risk is explained in Note 44. In order to eliminate the risk, the Company hedges its open position by entering into foreign exchange deals such as: foreign exchange spot, foreign exchange forwards, foreign exchange swaps or foreign exchange options. The foreign currency risk mainly arises from customer-driven transactions on deposits and loans and advances.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

Interest rate caps/floors protect the buyer from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Company's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Company's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates and foreign currency exchange rates, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

**Hedge accounting**

The Company elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Company applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Company also uses derivatives for economic hedging (hedging the changes in interest rates, foreign currency exchange rates or other risks) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the income statement.

## 19. Derivative financial instruments (continued)

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the income statement.

*Fair value hedges*
The Company uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate debt securities measured at FVOCI.

*Hedges of net investments*
The Company's balance sheet is impacted by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas branches. The Company hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas associates and joint ventures and by forward exchange rate contracts.

| | **Gains/(losses) attributable to hedged risk** | | **Hedged in-effectiveness** |
|---|---|---|---|
| **2022** | **Hedged items** | **Hedging instrument** | |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** |
| Fair value hedges | | | |
| -interest rate swaps | (62,563) | 65,427 | (2,864) |
| **Total** | **(62,563)** | **65,427** | **(2,864)** |

| | **Gains/(losses) attributable to hedged risk** | | **Hedged in-effectiveness** |
|---|---|---|---|
| **2021** | **Hedged items** | **Hedging instrument** | |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** |
| Fair value hedges | | | |
| -interest rate swaps | (19,327) | 19,878 | (551) |
| **Total** | **(19,327)** | **19,878** | **(551)** |

The accumulated fair value adjustment arising from the hedging relationships is presented in the table below:

## 19. Derivative financial instruments (continued)

| | Carrying amount of hedged items | | Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item | |
|---|---|---|---|---|
| **2022** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** | **€000** |
| Fair value hedges - interest rate swaps | | | | |
| *-debt securities* | 468,396 | - | (66,555) | - |
| *-debt securities in issue* | - | 297,636 | - | 4,853 |
| **Total** | **468,396** | **297,636** | **(66,555)** | **4,853** |

| | Carrying amount of hedged items | | Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item | |
|---|---|---|---|---|
| **2021** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Derivatives qualifying for hedge accounting** | **€000** | **€000** | **€000** | **€000** |
| Fair value hedges - interest rate swaps | | | | |
| *-debt securities* | 746,432 | - | 729 | - |
| **Total** | **746,432** | **-** | **729** | **-** |

For assets hedged using fair value hedges the fixed rate is 1.84% and the floating rate is 1.20% as at 31 December 2022 (2021: 2.38% and 0.94% respectively). For liabilities hedged using fair value hedges, the average fixed rate is 0.62% and the average floating rate is 0.25% respectively as at 31 December 2022. There were no liabilities hedged using fair value hedges as at 31 December 2021.

**19. Derivative financial instruments** (continued)

The maturity of the Company's contract amount of the derivatives is presented in the table below:

| | On demand and up to one month | Between one and three months | Between three months and one year | Between one and five years | Over five years | Total contract amount |
|---|---|---|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** |
| **Trading derivatives** | | | | | | |
| Forward exchange rate contracts | 1,649 | 9,138 | 2,452 | - | - | **13,239** |
| Currency swaps | 1,112,362 | 139,219 | - | - | - | **1,251,581** |
| Interest rate swaps | - | - | - | 14,806 | - | **14,806** |
| Currency options | 352 | - | - | - | - | **352** |
| Interest rate caps/floors | - | - | - | 154,173 | 17,691 | **171,864** |
| | **1,114,363** | **148,357** | **2,452** | **168,979** | **17,691** | **1,451,842** |
| **Derivatives qualifying for hedge accounting** | | | | | | |
| Fair value hedges - interest rate swaps | 23,416 | 17,000 | 42,200 | 486,397 | 234,500 | **803,513** |
| **Total** | **1,137,779** | **165,357** | **44,652** | **655,376** | **252,191** | **2,255,355** |

## 19. Derivative financial instruments (continued)

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | Total contract amount €000 |
|---|---|---|---|---|---|---|
| **Trading derivatives** | | | | | | |
| Forward exchange rate contracts | 109,020 | 4,493 | 1,928 | - | - | **115,441** |
| Currency swaps | 878,993 | 114,852 | 368 | - | - | **994,213** |
| Interest rate swaps | - | - | 6,219 | 15,471 | - | **21,690** |
| Currency options | 83 | - | - | - | - | **83** |
| Interest rate caps/floors | - | - | 500,000 | - | 18,950 | **518,950** |
| | **988,096** | **119,345** | **508,515** | **15,471** | **18,950** | **1,650,377** |
| **Derivatives qualifying for hedge accounting** | | | | | | |
| Fair value hedges - interest rate swaps | 44,182 | 41,530 | 101,465 | 247,158 | 266,500 | **700,835** |
| **Total** | **1,032,278** | **160,875** | **609,980** | **262,629** | **285,450** | **2,351,212** |

*Interest rate benchmark reform*
As at 31 December 2022 and 2021 the interest rate benchmarks to which the Company's hedge relationships are exposed to, are Euro Interbank Offered Rate (Euribor) and USD London Interbank Offered Rate (Libor) in relation to the cash flows of the hedging instruments. The Company has applied judgement in relation to market expectations regarding hedging instruments. The key judgement is that the cash flows for contracts currently indexing Interbank Offered Rate (IBOR) are expected to have broadly equivalent cash flows upon the transition of the contracts to IBOR replacement rates.

The table below indicates the nominal amount of derivatives in hedging relationships analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Company manages through hedging relationships.

| Interest Rate Swaps | **2022** €000 | 2021 €000 |
|---|---|---|
| Euribor (3-month) | **770,731** | 529,831 |
| Libor USD (3-month) | **32,782** | 171,004 |
| **Total** | **803,513** | 700,835 |

Euribor is in compliance with EU Benchmarks Regulation and the Company does not consider that Euribor based derivatives are affected by the BMR Reform.

As at 31 December 2022, the Company's assessment regarding the on going transition to the new risk free rates (RFRs) indicates that the impact on the hedging relationships and in value terms is not significant. Further details in relation to interest rate benchmark reform are disclosed in Note 44.

## 20. Fair value measurement

The following table presents the carrying value and fair value of the Company's financial assets and liabilities.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| **Financial assets** | **€000** | **€000** | €000 | €000 |
| Cash and balances with central banks | **9,567,095** | **9,567,095** | 9,230,717 | 9,230,717 |
| Loans and advances to banks | **166,689** | **153,995** | 247,693 | 245,592 |
| Investments at FVPL | **8,712** | **8,712** | 4,865 | 4,865 |
| Investments at FVOCI | **456,598** | **456,598** | 734,059 | 734,059 |
| Investments at amortised cost | **2,046,119** | **1,953,336** | 1,191,274 | 1,196,753 |
| Derivative financial assets | **48,153** | **48,153** | 6,653 | 6,653 |
| Loans and advances to customers | **9,952,921** | **10,011,393** | 9,835,534 | 9,641,324 |
| Balances with Group companies | **566,125** | **566,125** | 667,725 | 667,725 |
| Financial assets classified as held for sale | **-** | **-** | 250,356 | 250,356 |
| Other financial assets | **367,490** | **421,430** | 354,641 | 354,641 |
| | **23,179,902** | **23,186,837** | 22,523,517 | 22,332,685 |
| **Financial liabilities** | | | | |
| Funding from central banks and deposits by banks | **2,478,055** | **2,393,303** | 3,421,560 | 3,324,375 |
| Derivative financial liabilities | **16,169** | **16,169** | 32,452 | 32,452 |
| Customer deposits | **18,998,319** | **18,963,934** | 17,530,883 | 17,532,995 |
| Balances with Group companies | **97,513** | **97,513** | 67,929 | 67,929 |
| Debt securities in issue | **297,636** | **254,179** | 302,555 | 292,615 |
| Subordinated liabilities | **303,812** | **265,472** | 342,373 | 355,159 |
| Other financial liabilities and lease liabilities | **193,640** | **193,640** | 223,283 | 223,283 |
| | **22,385,144** | **22,184,210** | 21,921,035 | 21,828,808 |

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

The Company uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on market observable data.

For assets and liabilities that are recognised in the Financial Statements at fair value, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The following is a description of the determination of fair value for financial instruments and properties which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Company’s estimate of assumptions that a market participant would make when valuing the instruments.

**20. Fair value measurement** (continued)

*Derivative financial instruments*
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

*Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)*
The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and the Company's own credit quality respectively.

The Company calculates the CVA by applying the PD of the counterparty, conditional on the non-default of the Company, to the Company's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Company calculates the DVA by applying its own PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Company and multiplying the result by the loss expected in the event of default.

The expected exposure of derivatives is calculated as per the CRR and takes into account the netting agreements where they exist. A standard Loss Given Default (LGD) assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Company does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

*Investments at FVPL, investments at FVOCI and investments at amortised cost*
Investments which are valued using a valuation technique or pricing models primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. The rest of the investments are valued using quoted prices in active markets.

*Loans and advances to customers*
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the risk-free rate per currency, funding cost, servicing cost and the cost of capital, considering the risk weight of each loan. The discount rate used in the determination of the fair value of the loans and advances to customers measured at FVPL during the year ended 31 December 2022 ranges from 2.66% to 4.86% (2021: 2.34%-8.50%).

*Customer deposits*
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

*Loans and advances to banks*
Loans and advances to banks with maturity over one year are discounted using an appropriate risk-free rate plus the appropriate credit spread. For short-term lending, the fair value is approximated by the carrying value.

*Deposits by banks and funding from central banks*
Deposits by banks and funding from central banks with maturity over one year are discounted using an appropriate risk-free rate plus the appropriate credit spread. For short-term lending, the fair value is approximated by the carrying value.

**20. Fair value measurement** (continued)

*Debt securities in issue and Subordinated liabilities*
Debt securities and subordinated liabilities issuances are traded in an active market with quoted prices.

*Investment properties*
The fair value of investment properties is determined using valuations performed by external accredited, independent valuers. Further information on the techniques applied is disclosed in the remainder of this note.

*Owned property*
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers. Further information on the techniques applied is disclosed in the remainder of this note.

*Model inputs for valuation*
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

**20. Fair value measurement** (continued)

The following table presents the fair value measurement hierarchy of the Company's financial and non-financial assets and liabilities recorded at fair value and financial assets and financial liabilities for which fair value is disclosed, by level of the fair value hierarchy:

| **2022** | Level 1<br>€000 | Level 2<br>€000 | Level 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| *Investment properties* | | | | |
| Residential | - | - | 9,045 | **9,045** |
| Offices and other commercial properties | - | - | 8,470 | **8,470** |
| Manufacturing and industrial properties | - | - | 8,836 | **8,836** |
| | - | - | 26,351 | **26,351** |
| *Freehold property* | | | | |
| Offices and other commercial properties | - | - | 164,593 | **164,593** |
| *Loans and advances to customers measured at FVPL* | - | - | 214,359 | **214,359** |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 103 | - | **103** |
| Currency swaps | - | 293 | - | **293** |
| Interest rate swaps | - | 437 | - | **437** |
| Currency options | - | 287 | - | **287** |
| Interest rate caps/floors | - | 3,094 | - | **3,094** |
| | - | 4,214 | - | **4,214** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 43,939 | - | **43,939** |
| *Investments at FVPL* | 842 | - | 7,870 | **8,712** |
| *Investments at FVOCI* | 447,745 | - | 8,853 | **456,598** |
| *Balances with Group companies* | - | - | 532,793 | **532,793** |
| | **448,587** | **48,153** | **954,819** | **1,451,559** |
| **Other financial assets not measured at fair value** | | | | |
| Loans and advances to banks | - | 153,995 | - | **153,995** |
| Balances with Group companies | - | - | 33,332 | **33,332** |
| Investments at amortised cost | 1,871,757 | 69,300 | 12,279 | **1,953,336** |
| Loans and advances to customers | - | - | 9,797,034 | **9,797,034** |
| | **1,871,757** | **223,295** | **9,842,645** | **11,937,697** |

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €4,538 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €1,145 thousand in their fair value.

For one investment included in debt and other non-equity securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 with a carrying amount of €7,870 thousand as at 31 December 2022, a change in the conversion factor by 10% would result in a change in the value of the debt and other non-equity securities by €787 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 44.

## 20. Fair value measurement (continued)

| 2022 | Level 1<br>€000 | Level 2<br>€000 | Level 3<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|
| **Liabilities measured at fair value** | | | | |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 123 | - | **123** |
| Currency swaps | - | 10,316 | - | **10,316** |
| Interest rate swaps | - | 420 | - | **420** |
| Currency options | - | 65 | - | **65** |
| Interest rate caps/floors | - | 3,094 | - | **3,094** |
| | - | 14,018 | - | **14,018** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 2,151 | - | **2,151** |
| | **-** | **16,169** | **-** | **16,169** |
| **Other financial liabilities not measured at fair value** | | | | |
| Funding from central banks | - | 1,944,145 | - | **1,944,145** |
| Deposits by banks | - | 449,158 | - | **449,158** |
| Customer deposits | - | - | 18,963,934 | **18,963,934** |
| Balances with Group companies | - | - | 97,513 | **97,513** |
| Debt securities in issue | 254,179 | **-** | **-** | **254,179** |
| Subordinated liabilities | - | 265,472 | - | **265,472** |
| | **254,179** | **2,658,775** | **19,061,447** | **21,974,401** |

## 20. Fair value measurement (continued)

| 2021 | Level 1 €000 | Level 2 €000 | Level 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| *Investment properties* | | | | |
| Residential | - | - | 11,937 | **11,937** |
| Offices and other commercial properties | - | - | 11,317 | **11,317** |
| Manufacturing and industrial properties | - | - | 10,871 | **10,871** |
| | - | - | 34,125 | **34,125** |
| *Investment properties held for sale* | | | | |
| Residential | - | - | 1,790 | **1,790** |
| Offices and other commercial properties | - | - | 1,781 | **1,781** |
| | - | - | 3,571 | **3,571** |
| *Freehold property* | | | | |
| Offices and other commercial properties | - | - | 162,941 | **162,941** |
| *Loans and advances to customers measured at FVPL* | - | - | 281,868 | **281,868** |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 81 | - | **81** |
| Currency swaps | - | 4,388 | - | **4,388** |
| Interest rate swaps | - | 86 | - | **86** |
| Currency options | - | 62 | - | **62** |
| Interest rate caps/floors | - | 223 | - | **223** |
| | - | 4,840 | - | **4,840** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 1,813 | - | **1,813** |
| | - | 1,813 | - | **1,813** |
| *Investments at FVPL* | 856 | - | 4,009 | **4,865** |
| *Investments at FVOCI* | 725,505 | - | 8,554 | **734,059** |
| *Balances with Group companies* | - | - | 632,925 | **632,925** |
| | **726,361** | **6,653** | **1,127,993** | **1,861,007** |
| **Other financial assets not measured at fair value** | | | | |
| Loans and advances to banks | - | 245,592 | - | **245,592** |
| Balances with Group companies | - | - | 34,800 | **34,800** |
| Investments at amortised cost | 1,074,144 | 98,238 | 24,371 | **1,196,753** |
| Loans and advances to customers | - | - | 9,359,456 | **9,359,456** |
| | **1,074,144** | **343,830** | **9,418,627** | **10,836,601** |

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €4,647 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €784 thousand in their fair value.

For one investment included in debt and other non-equity securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 with a carrying amount of €3,509 thousand as at 31 December 2021, a change in the conversion factor by 10% would result in a change in the value of the debt and other non-equity securities by €351 thousand.

## 20. Fair value measurement (continued)

| 2021 | Level 1 €000 | Level 2 €000 | Level 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Liabilities measured at fair value** | | | | |
| *Trading derivatives* | | | | |
| Forward exchange rate contracts | - | 779 | - | **779** |
| Currency swaps | - | 1,348 | - | **1,348** |
| Interest rate swaps | - | 61 | - | **61** |
| Currency options | - | 21 | - | **21** |
| Interest rate caps/floors | - | 218 | - | **218** |
| | - | 2,427 | - | **2,427** |
| *Derivatives qualifying for hedge accounting* | | | | |
| Fair value hedges-interest rate swaps | - | 30,025 | - | **30,025** |
| | **-** | **32,452** | **-** | **32,452** |
| **Other financial liabilities not measured at fair value** | | | | |
| Funding from central banks | - | 2,950,646 | - | **2,950,646** |
| Deposits by banks | - | 373,729 | - | **373,729** |
| Customer deposits | - | - | 17,532,995 | **17,532,995** |
| Balances with Group companies | - | - | 67,929 | **67,929** |
| Debt securities in issue | 292,615 | **-** | **-** | **292,615** |
| Subordinated liabilities | 39,695 | 315,464 | - | **355,159** |
| | **332,310** | **3,639,839** | **17,600,924** | **21,573,073** |

The cash and balances with central banks are financial instruments whose carrying value is a reasonable approximation of fair value because they are mostly short-term in nature or are repriced to current market rates frequently. The carrying value of other financial assets and other financial liabilities and assets classified as held for sale is a close approximation of their fair value and they are categorised as Level 3.

During the years ended 31 December 2022 and 2021 there were no significant transfers between Level 1 and Level 2.

## 20. Fair value measurement (continued)

*Movements in Level 3 assets measured at fair value*

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid and consequently, the Company requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 financial assets which are measured at fair value is presented below:

| | **2022** | | | | | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Investment properties** | **Investment properties held for sale** | **Own use properties** | **Loans and advances to customers** | **Financial instruments** | **Balances with Group Companies** | Investment properties | Investment properties held for sale | Own use properties | Loans and advances to customers | Financial instruments | Balances with Group Companies |
| | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** | €000 | €000 | €000 | €000 | €000 | €000 |
| **1 January** | **34,125** | **3,571** | **162,941** | **281,868** | **12,563** | **632,925** | 47,438 | - | 162,202 | 289,861 | 20,704 | 696,121 |
| Additions | **405** | **-** | **3,066** | **-** | **6,366** | **65,210** | 147 | - | 821 | - | 35 | 2,631 |
| Transfers from investment properties to non-current assets and disposal groups held for sale (Note 28) | **-** | **-** | **-** | **-** | **-** | **-** | (3,979) | 3,979 | - | - | - | - |
| Disposals | **(7,731)** | **(3,571)** | **-** | **-** | **(500)** | **-** | (8,082) | (408) | - | - | (199) | - |
| Transfers from investment properties to own use properties | **-** | **-** | **-** | **-** | **-** | **-** | (867) | - | 867 | - | - | - |
| Net gains/(losses) on balances with Group companies (Note 10) | **-** | **-** | **-** | **-** | **-** | **(57,399)** | - | - | - | - | - | (37,338) |
| Conversion of instruments into common shares | **-** | **-** | **-** | **-** | **-** | **-** | - | - | - | - | (11,792) | - |
| Depreciation charge for the year | **-** | **-** | **(1,414)** | **-** | **-** | **-** | - | - | (1,417) | - | - | - |
| Fair value (losses)/gains | **(448)** | **-** | **-** | **-** | **(1,723)** | **-** | (532) | - | 468 | - | 3,815 | - |
| Net gains/(losses) on loans and advances to customers measured at FVPL (Note 10) | **-** | **-** | **-** | **4,050** | **-** | **-** | - | - | - | (17,292) | - | - |
| Derecognition of funding | **-** | **-** | **-** | **(82,522)** | **-** | **(142,855)** | - | - | - | (3,083) | - | (52,452) |
| Interest on loans | **-** | **-** | **-** | **10,963** | **-** | **34,912** | - | - | - | 12,382 | - | 23,963 |
| Foreign exchange adjustments | **-** | **-** | **-** | **-** | **17** | **-** | - | - | - | - | - | - |
| **31 December** | **26,351** | **-** | **164,593** | **214,359** | **16,723** | **532,793** | 34,125 | 3,571 | 162,941 | 281,868 | 12,563 | 632,925 |

## 20. Fair value measurement (continued)

**Valuation policy and sensitivity analysis**

*Investment properties, investment properties held for sale and own use properties*
The valuation technique mainly applied by the Company is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Company also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties, investment properties held for sale and own use properties are presented in the tables below:

## 20. Fair value measurement (continued)

**Valuation policy and sensitivity analysis** (continued)

*Analysis of investment properties*

| Type and country | 2022 | Estimated rental value per m² per annum | Estimated building cost per m² | Yield | Estimated fair value per m² | Estimated land value per m² | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Residential** | **€000** | | | | | | **m²** | **m²** | **Years** |
| Cyprus | 4,911 | €37-€93 | €185-€1,673 | 5%-7% | €427-€2,338 | €130-€650 | 134-1,203 | 89-1,420 | 10-104 |
| Greece | 4,134 | €6-€115 | €164-€2,115 | 2%-7.1% | €45-€1,892 | €7-€4,017 | 24-5,147 | 51-825 | 11-50 |
| | 9,045 | | | | | | | | |
| **Offices and other commercial properties** | | | | | | | | | |
| Cyprus | 5,470 | €36-€136 | €470 | 4%-5.5% | €520-€1,915 | €150 | 348-1,203 | 37-1,420 | 9-67 |
| Greece | 3,000 | €19-€381 | €193-€3,548 | 5.4%-10.5% | €72-€3,638 | €142-€265 | 100-8,582 | 6-4,692 | 18-64 |
| | 8,470 | | | | | | | | |
| **Manufacturing and industrial** | | | | | | | | | |
| Cyprus | 1,668 | €36-€47 | n/a | 6% | €538-€1,063 | n/a | 2,202-6,320 | 743-1,608 | n/a |
| Greece | 7,168 | €7-€58 | €133-€461 | 3.5%-11% | €8-€439 | €5-€395 | 57-34,495 | 349-5,858 | 13-84 |
| | 8,836 | | | | | | | | |
| **Total** | **26,351** | | | | | | | | |

*Analysis of own use properties*

| Type and country | 2022 | Estimated rental value per m² per annum | Estimated building cost per m² | Yield | Estimated fair value per m² | Estimated land value per m² | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Offices and other commercial properties** | **€000** | | | | | | **m²** | **m²** | **Years** |
| Cyprus | 164,593 | €23-€277 | €750-€1,855 | 5.8% | €550-€6,164 | €145-€1,400 | 390-51,947 | 122-11,233 | 20-79 |
| **Total** | **164,593** | | | | | | | | |

## 20. Fair value measurement (continued)

**Valuation policy and sensitivity analysis** (continued)

*Analysis of investment properties and investment properties held for sale*

| Type and country | 2021 | Estimated rental value per m² per annum | Estimated building cost per m² | Yield | Estimated fair value per m² | Estimated land value per m² | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Residential** | €000 | | | | | | m² | m² | Years |
| Cyprus | 9,577 | €35-€100 | €134-€1,370 | 4.5%-5% | €380-€2,297 | €110-€800 | 89-1,203 | 19-559 | 7-48 |
| Greece | 4,150 | €3-€115 | €131-€2,296 | 0.7%-8.4% | €50-€1,892 | €3-€2,437 | 5,147 | 51-825 | 10-49 |
| | 13,727 | | | | | | | | |
| **Offices and other commercial properties** | | | | | | | | | |
| Cyprus | 9,356 | €25-€121 | n/a | 4%-6% | €498-€1,915 | €580-€950 | 152-1,480 | 25-2,533 | 9-76 |
| Greece | 3,742 | €19-€272 | €207-€3,615 | 5.3%-11.3% | €74-€3,615 | €258 | 8,582 | 6-4,692 | 17-63 |
| | 13,098 | | | | | | | | |
| **Manufacturing and industrial** | | | | | | | | | |
| Cyprus | 3,187 | €26-€38 | n/a | 5%-6% | €522-€1,646 | n/a | 2,202-6,320 | 743-1,608 | 23 |
| Greece | 7,684 | €43 | €71-€450 | 5.2%-10% | €8-€425 | €399 | 57-34,445 | 349-5,858 | 12-83 |
| | 10,871 | | | | | | | | |
| **Total** | **37,696** | | | | | | | | |

*Analysis of own use properties*

| Type and country | 2021 | Estimated rental value per m² per annum | Estimated building cost per m² | Yield | Estimated fair value per m² | Estimated land value per m² | Land | Building area | Age of building |
|---|---|---|---|---|---|---|---|---|---|
| **Offices and other commercial properties** | €000 | | | | | | m² | m² | Years |
| Cyprus | 162,941 | €23-€277 | €580-€1,855 | 5.8% | €70-€6,164 | €70-€1,400 | 390-51,947 | 122-11,233 | 19-78 |
| **Total** | **162,941** | | | | | | | | |

## 20. **Fair value measurement** (continued)

**Valuation policy and sensitivity analysis** (continued)

*Sensitivity analysis*
Most of the Company's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach could result in a significantly higher/lower fair value of the properties.

## 21. Loans and advances to customers

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Gross loans and advances to customers at amortised cost | **9,915,037** | 9,818,026 |
| Allowance for ECL for impairment of loans and advances to customers (Note 43.6) | **(176,475)** | (264,360) |
| | **9,738,562** | 9,553,666 |
| Loans and advances to customers measured at FVPL | **214,359** | 281,868 |
| | **9,952,921** | 9,835,534 |

The following tables present the Company's gross loans and advances to customers at amortised cost by staging and by geographical analysis (based on the country in which the loans are managed).

| | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | €000 | **€000** |
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | 7,931,292 | 1,586,488 | 370,742 | 115,544 | **10,004,066** |
| Residual fair value adjustment on initial recognition | (64,255) | (20,885) | (1,803) | (2,086) | **(89,029)** |
| **Gross loans at amortised cost** | **7,867,037** | **1,565,603** | **368,939** | **113,458** | **9,915,037** |
| **Cyprus** | **7,867,037** | **1,565,603** | **368,939** | **113,458** | **9,915,037** |

| | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **2021** | €000 | €000 | €000 | €000 | **€000** |
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | 7,488,091 | 1,721,231 | 554,627 | 159,755 | **9,923,704** |
| Residual fair value adjustment on initial recognition | (69,659) | (22,051) | (3,530) | (10,438) | **(105,678)** |
| **Gross loans at amortised cost** | **7,418,432** | **1,699,180** | **551,097** | **149,317** | **9,818,026** |
| **Cyprus** | **7,418,432** | **1,699,180** | **545,327** | **149,317** | **9,812,256** |
| **Other countries** | **-** | **-** | **5,770** | **-** | **5,770** |
| | **7,418,432** | **1,699,180** | **551,097** | **149,317** | **9,818,026** |

**21. Loans and advances to customers** (continued)

*Residual fair value adjustment*
The residual fair value adjustment on initial recognition mainly relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment decreased the gross balance of loans and advances to customers. The residual fair value adjustment is included within the gross balances of loans and advances to customers as at each balance sheet date. However, for credit risk monitoring, the residual fair value adjustment as at each balance sheet date is presented separately from the gross balances of loans and advances, as shown in the tables above.

Loans and advances to customers measured at FVPL are managed in Cyprus.

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

| **2022**<br>**By business line** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 2,502,630 | 807,282 | 53,964 | 34,616 | **3,398,492** |
| International corporate | 685,099 | 150 | 35 | 24 | **685,308** |
| SMEs | 824,904 | 189,825 | 1,515 | 10,364 | **1,026,608** |
| Retail | | | | | |
| - housing | 2,982,436 | 305,714 | 30,071 | 12,413 | **3,330,634** |
| - consumer, credit cards and other | 704,959 | 152,815 | 14,376 | 15,746 | **887,896** |
| Restructuring | | | | | |
| - corporate | 2,842 | 34,246 | 20,689 | 10,175 | **67,952** |
| - SMEs | 12,643 | 10,603 | 23,374 | 2,381 | **49,001** |
| - retail housing | 5,168 | 22,018 | 42,155 | 3,292 | **72,633** |
| - retail other | 1,713 | 5,364 | 16,237 | 1,029 | **24,343** |
| Recoveries | | | | | |
| - corporate | - | - | 18,403 | 1,316 | **19,719** |
| - SMEs | - | - | 29,339 | 2,366 | **31,705** |
| - retail housing | - | - | 88,956 | 14,039 | **102,995** |
| - retail other | 108 | - | 28,569 | 4,953 | **33,630** |
| International banking services | 104,539 | 31,934 | 1,254 | 147 | **137,874** |
| Wealth management | 39,996 | 5,652 | 2 | 597 | **46,247** |
| | **7,867,037** | **1,565,603** | **368,939** | **113,458** | **9,915,037** |

## 21. Loans and advances to customers (continued)

| **2021 (restated)**<br>**By business line** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 2,365,329 | 878,698 | 56,002 | 44,269 | **3,344,298** |
| International corporate | 578,920 | 53,259 | 5,753 | 11 | **637,943** |
| SMEs | 811,948 | 215,012 | 6,037 | 10,589 | **1,043,586** |
| Retail | | | | | |
| - housing | 2,769,274 | 320,473 | 49,633 | 11,886 | **3,151,266** |
| - consumer, credit cards and other | 732,154 | 116,983 | 23,361 | 16,189 | **888,687** |
| Restructuring | | | | | |
| - corporate | 6,092 | 35,613 | 14,255 | 6,257 | **62,217** |
| - SMEs | 14,016 | 16,417 | 34,083 | 5,663 | **70,179** |
| - retail housing | 3,075 | 15,528 | 62,934 | 3,547 | **85,084** |
| - retail other | 1,409 | 5,701 | 24,838 | 1,050 | **32,998** |
| Recoveries | | | | | |
| - corporate | - | - | 29,600 | 6,474 | **36,074** |
| - SMEs | - | - | 35,685 | 3,632 | **39,317** |
| - retail housing | - | - | 154,469 | 28,650 | **183,119** |
| - retail other | 114 | - | 51,672 | 10,424 | **62,210** |
| International banking services | 92,193 | 40,715 | 2,775 | 235 | **135,918** |
| Wealth management | 43,908 | 781 | - | 441 | **45,130** |
| | **7,418,432** | **1,699,180** | **551,097** | **149,317** | **9,818,026** |

Loans and advances to customers pledged as collateral are disclosed in Note 45.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL of loans and advances to customers are set out in Note 43.

## 22. Balances and transactions with Group companies

*Receivable balances with Group companies*

| Name of Group company | **2022 €000** | 2021 €000 |
|---|---|---|
| *Balances with Group companies at amortised cost* | | |
| The Cyprus Investment and Securities Corporation Ltd (CISCO) | **3,134** | 3,397 |
| General Insurance of Cyprus Ltd | **906** | 2,699 |
| EuroLife Ltd | **1,111** | 1,822 |
| Finerose Properties Ltd | **3** | 3 |
| Hydrobius Ltd | **2,628** | 8,087 |
| BOC Asset Management Romania S.A. | **4,719** | 5,321 |
| BOC Asset Management Ltd | **6** | 35 |
| MC Investment Assets Management LLC | **-** | 2,631 |
| JCC Payment Systems Ltd | **873** | 1,593 |
| S.Z. Eliades Leisure Ltd | **8,471** | 6,025 |
| Bank of Cyprus Holding Public Limited Company | **8,390** | 142 |
| Fortuna Astrum Ltd | **656** | 682 |
| Stamoland Properties Ltd | **2,435** | 2,363 |
| | **33,332** | 34,800 |
| *Balances with Group companies mandatorily measured at FVPL* | | |
| Group property companies in Cyprus | **531,627** | 631,789 |
| Other Group companies in Cyprus | **1,166** | 1,136 |
| | **532,793** | 632,925 |
| **Total** | **566,125** | 667,725 |

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **ECL** | Gross carrying amount | ECL |
| | **€000** | **€000** | €000 | €000 |
| Stage 1 | **16,984** | **129** | 12,051 | - |
| Stage 3 | **12,133** | **4,783** | 111,639 | 95,597 |
| POCI | **10,978** | **1,851** | 8,467 | 1,760 |
| Total balances with Group Companies at amortised cost | **40,095** | **6,763** | 132,157 | 97,357 |
| Balances with Group Companies measured at FVPL | **532,793** | **-** | 632,925 | - |
| | **572,888** | **6,763** | 765,082 | 97,357 |

The classification of the receivable balances with related companies depends on how these are managed as part of the business model the Company operates under, and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)). Balances with Group companies which are measured at FVPL are mandatorily classified because they failed to meet the SPPI criteria and represent in substance arrangements in which repayment of the balance is dependent on the performance of the underlying asset held by the subsidiary.

The Company holds these underlying assets for sale in its ordinary course of business. The cash flows for repayment of the receivable balances are dependent on the disposal value of the underlying assets; hence the exposure of the Company is to changes in market property prices that will affect the disposal price of those underlying assets.

**22. Balances and transactions with Group companies** (continued)

Interest on balances with Group companies measured at FVPL is recognised following the same policies adopted by the Group in preparing the Consolidated Financial Statements of the Group.

Receivable balances with Group companies measured at amortised cost are denominated in Euro, except from balances of a carrying value of €2,628 thousand as at 31 December 2022 which are denominated in Russian Rouble (2021: €8,087 thousand). During the year ended 31 December 2022 credit losses of €7,353 thousand (2021: €4,464 thousand) have been recognised in relation to these receivable balances, out of which €3,665 thousand (2021: €3,626 thousand) relate to Hydrobius Ltd.

The balances are uncollateralised. The location of the Group companies' operations is disclosed in Note 48.

The net losses on balance with Group companies are disclosed in Note 10.

*Payable balances with Group companies*

| Name of Group company | **2022**<br>**€000** | 2021<br>€000 |
|---|---|---|
| JCC Payment Systems Ltd | **21,347** | 14,754 |
| The Cyprus Investment and Securities Corporation Ltd (CISCO) | **2,523** | 3,386 |
| General Insurance of Cyprus Ltd | **13,289** | 14,530 |
| EuroLife Ltd | **5,519** | 5,858 |
| Kermia Properties & Investments Ltd | **22,370** | 7,597 |
| Kermia Ltd | **2,354** | 2,283 |
| Kyprou Zois (branch of EuroLife Ltd) | **1,267** | 1,267 |
| Kyprou Commercial S.A. | **1,629** | 1,637 |
| BOC Asset Management Romania S.A. | **2,626** | 973 |
| MC Investment Assets Management LLC | **2,711** | 4 |
| S.Z. Eliades Leisure Ltd | **179** | 423 |
| Bank of Cyprus Holdings Public Limited Company | **3,738** | 247 |
| BOC Terra AIF V.C.I Plc | **525** | 547 |
| BOC Asset Management Ltd | **1,192** | 972 |
| Obafemi Holdings Ltd | **185** | 217 |
| Group property companies in Cyprus | **8,166** | 5,068 |
| Other Group companies in Cyprus | **7,893** | 8,166 |
| **Total** | **97,513** | 67,929 |

Amounts included above comprise mainly of deposits from the Group companies, which are made on normal business terms.

## 22. Balances and transactions with Group companies (continued)

*Dividends received from subsidiary companies*

| Name of Group company | 2022 €000 | 2021 €000 |
|---|---|---|
| EuroLife Ltd | **8,000** | 12,000 |
| General Insurance of Cyprus Ltd | **4,000** | 7,000 |
| JCC Payment Systems Ltd | **9,000** | 5,078 |
| Kermia Properties & Investments Ltd | **117** | - |
| Group property companies in Cyprus | **342** | 336 |
| Labancor Ltd | **-** | 740 |
| Obafemi Holdings Ltd | **-** | 30 |
| Auction Yard Ltd | **-** | 21 |
| | **21,459** | 25,205 |

*Transactions with Group companies*

| | 2022 €000 | 2021 €000 |
|---|---|---|
| Interest income and income similar to interest income | **36,515** | 27,110 |
| Interest expense | **(19,882)** | (13,828) |
| Fee and commission income | **18,477** | 16,412 |
| Fee and commission expense | **(4,603)** | (4,947) |
| Other income | **2,108** | 96 |
| Other operating expenses | **(8,174)** | (7,448) |

## 23. Investments in associates

### Carrying value of the investments in associates

| | Percentage holdings (%) |
|---|---|
| Aris Capital Management LLC | **30.0** |
| Rosequeens Properties Limited | **33.3** |
| Fairways Automotive Holdings Ltd | **45.0** |
| | |

The carrying values of the investments in associates are considered to be fully impaired and their value has been restricted to zero.

### Investments in associates

*Rosequeens Properties SRL*
During the year ended 31 December 2022 the Company disposed of its 33.3% holding in associate company Rosequeens Properties SRL.

## 23. **Investments in associates** (continued)

*Apollo Global Equity Fund of Funds Variable Capital Investment Company Plc (Apollo)*
In March 2021 the Company completed the sale of its entire holding of 32.9% of the UCITS of Apollo. The Company considered that it exercised significant influence over Apollo even though no Board representation existed, because due to its UCITS holdings, it possessed the power to potentially appoint members of the Board of Directors. The gain on the sale of the investment in associate amounted to €309 thousand and had been recognised in 'Other Income' (Note 11) during the year ended 31 December 2021.

## 24. Property and equipment

| **2022** | Property €000 | Equipment €000 | **Total €000** |
|---|---|---|---|
| Net book value at 1 January | 192,788 | 14,676 | **207,464** |
| Additions | 3,790 | 1,507 | **5,297** |
| Disposals and write-offs | (46) | (92) | **(138)** |
| Depreciation charge for the year (Note 13) | (8,172) | (4,040) | **(12,212)** |
| New leases (Note 41) | - | 825 | **825** |
| Re-assessment of RoU assets (Note 41) | 960 | - | **960** |
| Derecognition of RoU assets (Note 41) | (1,460) | - | **(1,460)** |
| **Net book value at 31 December** | **187,860** | **12,876** | **200,736** |

| **1 January 2022** | | | |
|---|---|---|---|
| Cost or valuation | 254,846 | 102,746 | **357,592** |
| Accumulated depreciation | (62,058) | (88,070) | **(150,128)** |
| **Net book value** | **192,788** | **14,676** | **207,464** |

| **31 December 2022** | | | |
|---|---|---|---|
| Cost or valuation | 251,272 | 102,971 | **354,243** |
| Accumulated depreciation | (63,412) | (90,095) | **(153,507)** |
| **Net book value** | **187,860** | **12,876** | **200,736** |

## 24. **Property and equipment** (continued)

| 2021 | Property €000 | Equipment €000 | **Total €000** |
|---|---|---|---|
| Net book value at 1 January | 204,741 | 16,140 | **220,881** |
| Additions | 1,446 | 2,770 | **4,216** |
| Revaluation | 468 | - | **468** |
| Transfers to stock of property (Note 20) | 867 | - | **867** |
| New leases (Note 41) | 472 | - | **472** |
| Derecognition of RoU asset (Note 41) | (5,976) | - | **(5,976)** |
| Disposals and write-offs | (7) | (106) | **(113)** |
| Depreciation charge for the year (Note 13) | (9,223) | (4,128) | **(13,351)** |
| **Net book value at 31 December** | **192,788** | **14,676** | **207,464** |
| **1 January 2021** | | | |
| Cost or valuation | 258,086 | 102,939 | **361,025** |
| Accumulated depreciation | (53,345) | (86,799) | **(140,144)** |
| **Net book value** | **204,741** | **16,140** | **220,881** |
| **31 December 2021** | | | |
| Cost or valuation | 254,846 | 102,746 | **357,592** |
| Accumulated depreciation | (62,058) | (88,070) | **(150,128)** |
| **Net book value** | **192,788** | **14,676** | **207,464** |

The net book value of the Company's property comprises:

| | **2022 €000** | 2021 €000 |
|---|---|---|
| Freehold property | **164,593** | 162,941 |
| Improvements on leasehold property | **2,422** | 2,514 |
| RoU assets (Note 41) | **20,845** | 27,333 |
| **Total** | **187,860** | 192,788 |

Freehold property includes land amounting to €67,847 thousand (2021: €67,847 thousand) for which no depreciation is charged.

The Company's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. The Company performed revaluations as at 31 December 2020. The valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 20.

There were no charges against the freehold property of the Company as at 31 December 2022 and 2021.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2022 amounts to €117,070 thousand (2021: €115,418 thousand).

## 25. Intangible assets

### Computer software

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net book value at 1 January | **41,846** | 46,254 |
| Additions | **11,330** | 12,944 |
| Disposals and write-offs | **(392)** | (2,374) |
| Amortisation charge for the year (Note 13) | **(14,405)** | (14,978) |
| **Net book value at 31 December** | **38,379** | 41,846 |

| | | |
|---|---|---|
| **1 January 2022** | | |
| Cost | **203,370** | 194,650 |
| Accumulated amortisation and impairment | **(161,524)** | (148,396) |
| **Net book value** | **41,846** | 46,254 |

| | | |
|---|---|---|
| **31 December 2022** | | |
| Cost | **214,180** | 203,370 |
| Accumulated amortisation and impairment | **(175,801)** | (161,524) |
| **Net book value** | **38,379** | 41,846 |

Computer software includes internally developed computer software with a net carrying amount of €2,954 thousand (2021: €1,235 thousand).

## 26. Stock of property

The carrying amount of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During the year ended 31 December 2022 an impairment loss of €6,118 thousand (2021: €25,012 thousand) was recognised in 'Impairment net of reversals on non-financial assets' in the income statement. At 31 December 2022, stock of property of €177,853 thousand (2021: €166,573 thousand) is carried at net realisable value. Additionally, at 31 December 2022 stock of property with a carrying amount of €57,199 thousand (2021: €77,337 thousand) is carried at approximately its fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations.

The carrying amount of the stock of property is analysed in the tables below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net book value at 1 January | **513,289** | 678,426 |
| Additions | **17,175** | 30,784 |
| Disposals | **(82,530)** | (78,776) |
| Transfers to disposal group (Note 28) | **-** | (92,133) |
| Impairment (Note 14) | **(6,118)** | (25,012) |
| **Net book value at 31 December** | **441,816** | 513,289 |

There were no costs of construction during the years 2022 and 2021.

## 26. Stock of property (continued)

As at 31 December 2022 there are charges against stock of property of the Company with carrying value €20,989 thousand (2021: €21,015 thousand).

The table below shows the result on the disposal of stock of property in the year:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net proceeds | **93,091** | 89,607 |
| Carrying value of stock of property disposed of | **(82,530)** | (78,776) |
| Net gains on disposal of stock of property | **10,561** | 10,831 |

| **Analysis by type and country** | **Cyprus** | **Greece** | **Total** |
|---|---|---|---|
| **2022** | **€000** | **€000** | **€000** |
| Residential properties | 63,340 | 16,947 | **80,287** |
| Offices and other commercial properties | 51,706 | 11,263 | **62,969** |
| Manufacturing and industrial properties | 6,871 | 11,710 | **18,581** |
| Hotels | 2,627 | 437 | **3,064** |
| Land (fields and plots) | 272,744 | 4,171 | **276,915** |
| **Total** | **397,288** | **44,528** | **441,816** |

| | **Cyprus** | **Greece** | **Total** |
|---|---|---|---|
| **2021** | **€000** | **€000** | **€000** |
| Residential properties | 74,069 | 18,350 | **92,419** |
| Offices and other commercial properties | 57,089 | 19,462 | **76,551** |
| Manufacturing and industrial properties | 10,713 | 15,972 | **26,685** |
| Hotels | 2,697 | 456 | **3,153** |
| Land (fields and plots) | 309,603 | 4,878 | **314,481** |
| **Total** | **454,171** | **59,118** | **513,289** |

## 27. Prepayments, accrued income and other assets

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| *Financial assets* | | |
| Debtors | **10** | 11 |
| Receivable relating to tax | **4,536** | 4,558 |
| Deferred purchase payment consideration | **311,523** | 299,766 |
| Other assets | **51,421** | 50,306 |
| | **367,490** | 354,641 |
| *Non-financial assets* | | |
| Current tax receivable | **122,709** | 122,709 |
| Prepaid expenses | **82** | 93 |
| Other assets | **22,860** | 21,995 |
| | **145,651** | 144,797 |
| | **513,141** | 499,438 |

**27. Prepayments, accrued income and other assets** (continued)

An analysis of changes in the gross carrying amount of the financial assets included in prepayments, accrued income and other assets is presented in the table below:

| 2022 | Stage 1 €000 | Stage 3 €000 | Total €000 |
|---|---|---|---|
| 1 January | 351,802 | 35,803 | **387,605** |
| Net increase | 12,464 | 160 | **12,624** |
| **31 December** | **364,266** | **35,963** | **400,229** |
| **2021** | | | |
| 1 January | 50,105 | 33,779 | **83,884** |
| Net increase | 301,697 | 2,024 | **303,721** |
| **31 December** | **351,802** | **35,803** | **387,605** |

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

| 2022 | Stage 1 €000 | Stage 3 €000 | Total €000 |
|---|---|---|---|
| 1 January | 2,557 | 30,407 | **32,964** |
| Write-offs | - | (206) | **(206)** |
| Changes to models and inputs used for ECL calculations | (450) | 431 | **(19)** |
| **31 December** | **2,107** | **30,632** | **32,739** |
| **2021** | | | |
| 1 January | - | 28,120 | **28,120** |
| Changes to models and inputs used for ECL calculations | 2,557 | 2,287 | **4,844** |
| **31 December** | **2,557** | **30,407** | **32,964** |

There were no financial assets classified as Stage 2 as at 31 December 2022 and 2021. In addition, no financial assets were measured at FVPL as at 31 December 2022 and 2021.

On the completion date of the sale of Project Helix 2 (the 'Transaction') in June 2021, the Company recognised an amount of €381,567 thousand in other financial assets, which represented the fair value of the deferred consideration receivable from the Transaction (the 'DPP'). This amount is payable in four instalments up to December 2025 and each instalment carries interest up to each payment date. The first instalment in the amount of €84,579 thousand was received in December 2021. An amount of €10,889 thousand, which represents the interest income on DPP has been recognised in the Income Statement for the year ended 31 December 2022 (2021: €5,335 thousand) within 'Interest income - Financial assets at amortised cost - Other financial assets' (Note 6). There are no other conditions attached. An amount of €13,983 thousand which represents the effect of discounting the DPP at the date of derecognition of the loan portfolio was recorded as part of the transaction within 'Credit losses to cover credit risk on loans and advances to customers' during the year ended 31 December 2021. The DPP is classified as Stage 1 as at 31 December 2022 and 2021.

During the year ended 31 December 2022, credit losses of €72 thousand were recognised in relation to other financial assets. This includes a credit for ECL of €19 thousand (of which €867 thousand relate to a partial reversal for 12-months ECL of the DPP) and €91 thousand impairment losses. During the year ended 31 December 2021, credit losses of €5,828 thousand were recognised in relation to prepayments, accrued income and other financial assets. This includes ECL losses of €4,844 thousand (of which €2,557 thousand relate to 12-months ECL of the DPP), €1,178 thousand write-offs and €194 thousand reversal of impairments.

## 28. Non-current assets and disposal groups held for sale

The following non-current assets and disposal groups were classified as held for sale as at 31 December 2021. There were no assets classified as held for sale as at 31 December 2022.

| | 2021 |
|---|---|
| | €000 |
| Disposal group 1 | 331,329 |
| Disposal group 2 | 7,301 |
| | 338,630 |

| | 2021 | |
|---|---|---|
| | Disposal Group 1 | Disposal Group 2 |
| | €000 | €000 |
| Gross loans and advances to customers | 543,663 | 11,881 |
| Allowance for ECL for impairment of loans and advances to customers (Note 43.6) | (300,608) | (4,580) |
| | 243,055 | 7,301 |
| Stock of property | 84,703 | - |
| Investment property | 3,571 | - |
| **31 December** | 331,329 | 7,301 |

*Disposal Group 1*
Disposal group 1 comprised a portfolio of loans and advances to customers and a property portfolio (comprising stock of property and investment property) known as Project Helix 3 ('Project Helix 3' or the 'Helix 3 Transaction'), classified as held for sale since 30 September 2021. In November 2022, the Company completed the disposal of Project Helix 3 through the transfer of the portfolios to a licensed Cypriot Credit Acquiring Company (the CyCAC). The shares of the CyCAC were subsequently acquired by certain funds affiliated with PIMCO, the purchaser of Project Helix 3. The gross consideration on completion for the transaction amounted to approximately €366 million (including deposit received in 2021) and reflects adjustments resulting from, inter alia, loan repayments and property disposals proceeds received on the portfolios since the reference date 31 May 2021. The net consideration for the transaction (after transaction costs and other adjustments upon completion) corresponds to the net book value of the loans and advances to customers as at the date of completion, which amounted to €235 million, and the carrying value of the stock of property and investment properties which amounted to a total of €88 million.

*Disposal Group 2*
Disposal group 2 comprised a portfolio of loans and advances to customers and stock of properties in Romania known as Project Sinope ('Project Sinope' or the 'Sinope Transaction'), classified as held for sale since 31 December 2021. The transaction was completed in August 2022 and all of the consideration has been received in cash by completion date.

## 29. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations as set out in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Targeted Longer-Term Refinancing Operations (TLTRO III) | **1,976,674** | 2,969,600 |

As at 31 December 2022, ECB funding amounted to €2 billion (2021: €3 billion) borrowed from various TLTRO III operations.

## 29. Funding from central banks (continued)

In recognition of the challenging credit environment during the pandemic period, the Governing Council of the ECB announced that the interest rate on all outstanding TLTRO III operations for the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 would be 50 basis points below the average rate applicable in the Eurosystem's main refinancing operations over the same period. The interest rate on the main refinancing operations during the above periods remained at 0%. For the counterparties whose eligible net lending reached the lending performance thresholds, the interest rate applied over the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 on all TLTRO III operations outstanding would be 50 basis points below the average interest rate on the deposit facility prevailing over the same period, and in any case not higher than minus 1%. The Company exceeded the eligible net lending threshold applicable in the specified periods and was entitled to the beneficial rate of minus 1% for the period June 2020 to June 2022 and recognised interest at the beneficial rate over the corresponding period. Subsequently, the Company updated the effective interest rate based on the contractual terms and applying changes in terms of the operations as a change in the EIR applied prospectively.

ECB during its October 2022 meeting, announced that from 23 November 2022 onwards, the applicable interest rate would be indexed to the average applicable key ECB interest rates from that date onward.

The maturity of TLTRO III is three years from the settlement of each operation, but there is an option available to early repay or reduce the amounts borrowed before their respective final maturity.

The Company early repaid €1 billion of TLTRO III funding in December 2022.

Details on encumbered assets related to the above funding facilities are disclosed in Note 45.

## 30. Customer deposits

| | **2022**<br>**€000** | 2021<br>€000 |
|---|---|---|
| *By type of deposit* | | |
| Demand | **10,561,724** | 9,221,791 |
| Savings | **2,840,346** | 2,423,086 |
| Time or notice | **5,596,249** | 5,886,006 |
| | **18,998,319** | 17,530,883 |
| *By geographical area* | | |
| Cyprus | **13,019,109** | 11,992,960 |
| Greece | **1,933,771** | 1,906,854 |
| United Kingdom | **706,233** | 713,621 |
| United States | **178,962** | 133,355 |
| Germany | **168,785** | 127,013 |
| Romania | **69,514** | 54,306 |
| Russia | **700,465** | 661,820 |
| Ukraine | **290,050** | 276,248 |
| Belarus | **83,299** | 55,738 |
| Other countries | **1,848,131** | 1,608,968 |
| | **18,998,319** | 17,530,883 |

Deposits by geographical area are based on the country of passport of the Ultimate Beneficial Owner.

## 30. Customer deposits (continued)

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| *By currency* | | |
| Euro | **17,067,299** | 15,736,030 |
| US Dollar | **1,529,548** | 1,373,584 |
| British Pound | **333,458** | 312,918 |
| Russian Rouble | **3,466** | 28,539 |
| Swiss Franc | **11,796** | 10,865 |
| Other currencies | **52,752** | 68,947 |
| | **18,998,319** | 17,530,883 |

| | 2022 | 2021 (restated) |
|---|---|---|
| | €000 | €000 |
| *By business line* | | |
| Corporate and Large corporate | **1,915,300** | 1,602,975 |
| International corporate | **139,898** | 145,934 |
| SMEs | **1,007,555** | 866,860 |
| Retail | **11,333,783** | 11,051,397 |
| Restructuring | | |
| – Corporate | **16,017** | 21,658 |
| – SMEs | **6,375** | 13,091 |
| – Retail other | **10,152** | 9,862 |
| Recoveries | | |
| – Corporate | **1,262** | 1,383 |
| International banking services | **3,957,050** | 3,500,183 |
| Wealth management | **610,927** | 318,299 |
| | **18,998,319** | 17,531,642 |

## 31. Debt securities in issue and Subordinated liabilities

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | | Nominal value | Carrying value | Nominal value | Carrying value |
| **Subordinated liabilities** | **Contractual interest rate** | €000 | €000 | €000 | €000 |
| Subordinated Tier 2 Capital Note - January 2017 | 9.25% up to 19 January 2022 | **-** | **-** | 35,605 | 38,561 |
| Subordinated Tier 2 Capital Note April 2021 | 6.625% up to 23 October 2026 | **300,000** | **303,812** | 300,000 | 303,812 |
| | | **300,000** | **303,812** | 335,605 | 342,373 |
| **Debt securities in issue** | | | | | |
| Senior Preferred Notes June 2021 | 2.50% up to 24 June 2026 | **300,000** | **297,636** | 300,000 | 302,555 |

BOCH and the Company maintain a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

**31. Debt securities in issue and Subordinated liabilities** (continued)

**Subordinated Liabilities**

*Subordinated Tier 2 Capital Note - January 2017*
In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note under the EMTN Programme. The note was priced at par with a coupon of 9.25% per annum payable annually up to 19 January 2022 and thereafter at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The note had a maturity date on 19 January 2027. The Company had the option to redeem the note early on 19 January 2022, subject to applicable regulatory consents. In April 2021, the Company invited the holders of this note to tender it for purchase by the Company at a price of 105.5% plus accrued interest and following acceptance of the valid tenders of €207 million nominal amount, proceeded with the re-purchase. As a result, the Company incurred a loss of €12,558 thousand for the year ended 31 December 2021, while at the same time forfeiting the relevant obligation for future coupon payments. By 31 December 2021, the Group purchased from the open market a further €7 million nominal amount of the notes, which were held by the Company. On 19 January 2022, the Company exercised its option to redeem at par the remaining nominal amount outstanding of the notes. All outstanding notes were cancelled. The note was listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

*Subordinated Tier 2 Capital Note - April 2021*
In April 2021, BOCH issued a €300 million unsecured and subordinated Tier 2 Capital Note under the EMTN Programme and immediately after, BOCH and the Company entered into an agreement pursuant to which BOCH on-lent to the Company the entire €300 million proceeds of the issue of the Note (the 'T2 Loan') on terms substantially identical to the terms and conditions of the Note issued by BOCH. The T2 Loan was priced at par with a coupon of 6.625% per annum payable annually in arrears and resettable on 23 October 2026 at the then prevailing 5-year swap rate plus a margin of 6.902% per annum up to 23 October 2031, payable annually. The T2 Loan matures on 23 October 2031. The Company has the option to redeem the T2 Loan early on any day during the six-month period from 23 April 2026 to 23 October 2026, subject to applicable regulatory consents.

The fair value of the Subordinated liabilities as at 31 December 2022 and 2021 is disclosed in Note 20.

**Debt securities in issue**

*Senior Preferred Notes - June 2021*
In June 2021, the Company issued a €300 million senior preferred note under the EMTN Programme. The note was priced at par with a fixed coupon of 2.50% per annum, payable annually in arrears and resettable on 24 June 2026. The note matures on 24 June 2027. The Company has the option to redeem the note early on 24 June 2026, subject to applicable regulatory consents. The note is listed on the Luxembourg Stock Exchange's Euro MTF market. The note complies with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contributes towards the Company's MREL requirements.

The fair value of the debt securities in issue as at 31 December 2022 and 2021 is disclosed in Note 20.

## 32. Accruals, deferred income, other liabilities and other provisions

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Income tax payable and related provisions | **35,813** | 8,753 |
| Special defence contribution payable | **379** | 462 |
| Retirement benefit plans liabilities (Note 12) | **3,694** | - |
| Provisions for financial guarantees and commitments (Notes 43.5.1 and 43.5.2) | **17,429** | 21,945 |
| Accrued expenses and other provisions | **53,851** | 66,065 |
| Deferred income | **17,977** | 16,369 |
| Items in the course of settlement | **97,585** | 64,024 |
| Lease liabilities (Note 41) | **22,201** | 27,914 |
| Advances received for disposal group held for sale (Note 28) | **-** | 19,225 |
| Other liabilities | **20,098** | 46,146 |
| | **269,027** | 270,903 |

Other liabilities include an amount of €10,385 thousand (2021: €26,476 thousand) relating to the guarantee fee for the conversion of DTA into tax credits (Note 15).

The ECL allowance for financial guarantees and commitments is analysed by stage in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Stage 1 | **209** | 39 |
| Stage 2 | **207** | 293 |
| Stage 3 | **17,013** | 21,613 |
| | **17,429** | 21,945 |

## 33. Share capital

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number of shares (thousand)** | **€000** | Number of shares (thousand) | €000 |
| *Authorised* | | | | |
| Ordinary shares of €0.10 each | **47,677,593** | **4,767,759** | 47,677,593 | 4,767,759 |
| *Issued* | | | | |
| **1 January and 31 December** | **9,597,945** | **959,794** | 9,597,945 | 959,794 |

### Authorised and issued share capital

All issued ordinary shares carry the same rights.

There were no changes to the authorised or issued share capital during the years ended 31 December 2022 and 2021.

### Share premium reserve

There were no changes to the share premium reserve during the years ended 31 December 2022 and 2021.

## 33. Share capital (continued)

### Other equity instruments

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| | **220,000** | 220,000 |
| Reset Perpetual Additional Tier 1 Capital Securities | **220,000** | 220,000 |

In December 2018 BOCH issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the BOCH AT1). On the same date, the Company and BOCH entered into an agreement pursuant to which BOCH on-lent to the Company the entire €220 million proceeds of the issue of the BOCH AT1 (the AT1 Loan) on terms substantially identical to the terms and conditions of the BOCH AT1. The AT1 Loan constitutes an unsecured and subordinated obligation of BOCH the Company. The coupon is at 12.50% and is payable semi-annually. During the year ended 31 December 2022, two coupon payments to AT1 holders were made of a total amount of €27,500 thousand and have been recognised in retained earnings (2021: €27,500 thousand). The Company may elect to cancel any interest payment for an unlimited period, on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain conditions. The AT1 Loan is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and on each subsequent fifth anniversary, subject to the prior approval of the regulator.

## 34. Dividends

Based on the 2021 SREP decision the Company was under a regulatory prohibition for equity dividend distribution in 2022, similar to prior years. This prohibition does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital. No dividends were declared or paid during the years 2022 and 2021.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company and BOCH.

Following the 2022 SREP decision, effective from 1 January 2023, the equity dividend distribution prohibition was amended so that any dividend distribution shall be subject to regulatory approval.

## 35. Retained earnings

For the purpose of dividend distribution, retained earnings determined at the Company level are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution (SDC) at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents or individuals who are domiciled in Cyprus. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus. From 1 March 2019, the deemed dividend distribution is subject to 1.70% contribution to the General Health System (GHS), increased to 2.65% from 1 March 2020, with the exemption of April 2020 until June 2020 when the 1.70% rate was applicable.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This SDC and GHS are paid by the Company on account of the shareholders.

## 35. Retained earnings (continued)

During 2022 and 2021 no special defence contribution on deemed dividend distribution was paid by the Company.

## 36. Fiduciary transactions

The Company offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Company is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the balance sheet of the Company unless they are placed with the Company. Total assets under management and custody at 31 December 2022 amounted to €952,263 thousand (2021: €936,789 thousand).

## 37. Provisions for pending litigation, claims, regulatory and other matters

The Company, in the ordinary course of business, is involved in various disputes and legal proceedings and is subject to enquiries and examinations, requests for information, audits, investigations, legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent restructuring of the Company in 2013 as a result of the bail-in Decrees, the Company is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the bail-in Decrees.

Apart from what is described below, the Company considers that none of these matters are material, either individually or in aggregate. Nevertheless, provisions have been made where: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made. The Company has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so, because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses (Note 5.4). Where an individual provision is material, the fact that a provision has been made is stated except to the extent that doing so would be prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. There are also situations where the Group may enter into a settlement agreement. This may occur only if such settlement is in the Company's interest (such settlement does not constitute an admission of wrongdoing) and only takes place after obtaining legal advice and all approvals by the appropriate bodies of management. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings, regulatory and other matters as at 31 December 2022 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Company.

### 37.1 Pending litigation and claims

*Investigations and litigation relating to securities issued by the Company*
A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of misselling in relation to securities issued by the Company between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Company in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

**37. Provisions for pending litigation, claims, regulatory and other matters** (continued)

**37.1 Pending litigation and claims** (continued)

The Company is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be demonstrated that the relevant Company's officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties.

To date, a number of cases have been tried in Greece. The Company has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years.

So far three capital securities cases have been adjudicated in favour of the Company and four cases have been adjudicated against the Company at Areios Pagos (Supreme Court of Greece). The cases that the Company has won will be retried by the Court of Appeal as per the direction of the Supreme Court. One of the said cases has already been retried by the Court of Appeal and the ruling was in favour of the Company. There has been a new petition for annulment against this decision of the Court of Appeal and the case will be retried before the Supreme Court in 2023. The four cases that the Company has lost will not be retried and are therefore deemed as concluded.

In Cyprus sixteen judgments have been issued so far with regards to the Company capital securities. Ten of the said judgments have been issued in favour of the Company (dismissing the plaintiffs' claims) and six of them against the Company. The Company has filed appeals with regards to all of the cases where the judgment was issued against it. In five of the ten cases that the Company won, the plaintiffs have filed an appeal. It is to be noted that the statutory limitation period for filing claims with respect to this and other matters for which the cause of action arose prior and up to 31 December 2015, expired on 31 December 2021.

Provision has been made based on management's best estimate of probable outflows for capital securities related litigation.

*Bail-in related litigation*

Depositors

A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company and other parties (such as the CBC and the Ministry of Finance of Cyprus) including against the Company as the alleged successor of Laiki Bank on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. The Company is defending these actions.

The Company has won four cases with regards to bail-in related litigation (on failure to follow instructions). The plaintiffs have filed appeals with respect to two of the said judgments.

The Company won three bail-in decree related cases. In summary, the court ruled that the measures that the government implemented were necessary to prevent the collapse of the financial sector, which would have detrimental consequences for the country's economy. Under the circumstances the government could rely on the doctrine of necessity when it imposed the bail-in. Up to the date of the Financial Statements only one appeal has been filed with respect to the above mentioned judgments. The Company lost one Laiki Bail-in decree case but it is the opinion of legal advisors of the Company that this case is a one-off case which turned on its own particular facts.

The Company won one and lost two bail-in wrongful application related cases. An appeal that was filed by the Company is still pending with regards to this matter. With regards to the case that the Company won, the plaintiffs have not filed an appeal.

## 37. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 37.1 Pending litigation and claims (continued)

Shareholders
A number of actions for damages have been filed with the District Courts of Cyprus alleging either the unconstitutionality of the Resolution Law and the Bail-in Decrees, or a misapplication of same by the Company (as regards the way and methodology whereby such Decrees have been implemented), or that the Company failed to follow instructions promptly prior to the bail-in coming into force. As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect the Company contests all of these claims.

Legal position of the Company
All of the above claims are being vigorously disputed by the Company, in close consultation with the appropriate state and governmental authorities. The position of the Company is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

*Provident fund case*
In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against the Company claiming €70 million allegedly owed as part of the Company's contribution by virtue of an agreement with the Union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for the Company to predict the resolution of this matter, including the timing or any possible impact on the Company.

*Employment litigation*
Former employees of the Company have instituted a number of employment claims including unfair dismissals and one claim for Provident Fund entitlements against the Company and the Trustees of the Provident Fund. In July 2021 the claim for Provident Fund entitlements was settled. The Company does not consider that the pending cases in relation to employment will have a material impact on its financial position. A judgment has been issued in one of the unfair dismissals cases and the Company lost. The Company has filed an appeal with respect to this case. The facts of this case are unique and it is not expected to affect the rest of the cases where unfair dismissal is claimed.

Additionally, a number of former employees have filed claims against the Company contesting entitlements received relating to the various voluntary exit plans. As at the reporting date, the Company does not expect that these actions will have a material impact on its financial position.

*Swiss Francs loans litigation in Cyprus and the UK*
A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company is contesting the said proceedings. The Company does not expect that these actions will have a material impact on its financial position.

*UK property lending claims*
The Company is the defendant in certain proceedings alleging that the Company is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the UK are currently stayed in order for the parties to have time to negotiate possible settlements. The Company does not expect that these negotiations will lead to outflows for the Company.

## 37. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 37.1 Pending litigation and claims (continued)

*Banking business cases*
There is a number of banking business cases where the amounts claimed are significant. These cases primarily concern allegations as to the Company's standard policies and procedures allegedly resulting to damages and other losses for the claimants. Further, there are several other banking claims, where the amounts involved are not as significant. Management has assessed either the probability of loss as remote and/or does not expect any future outflows with respect to these cases to have a material impact on the financial position of the Company. Such matters arise as a result of the Company’s activities and management appropriately assesses the facts and the risks of each case accordingly.

*General criminal investigations and proceedings*
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. The Company is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Company is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

### 37.2 Regulatory matters

*The Hellenic Capital Market Commission (HCMC) Investigation*
The HCMC is currently in the process of investigating matters concerning the Company's investment in Greek Government Bonds from 2009 to 2011, including, inter alia, related non-disclosure of material information in the Company's CCS, CECS and rights issue prospectuses (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some investors regarding the Company's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Company.

*The Cyprus Securities and Exchange Commission (CySEC) Investigations*
CySEC has concluded (in two stages) during 2013 and 2014 its investigation with respect to the Company exposure to Greek Government Bonds and the non-disclosure of material information and other corporate governance deficiencies relating to the said exposure. In this respect, CySEC has issued two decisions, coming to the conclusion that the Company was in breach of certain laws regarding disclosure of information. At all times, the Company had filed recourses before the Administrative Court regarding the decisions of CySEC and the fines imposed upon it.

In October 2021 the Administrative Court ruled in favour of the Company in relation to the fine of €160 thousand on the ground of flawed constitution of the CySEC Board. In May 2022, the Administrative Court (under a different bench) ruled against the Company in relation to the fine of €950 thousand and found that the constitution of the CySEC Board was not flawed. Both cases are now pending on appeal. Relevant provisions were made since prior years for the said cases.

As at 31 December 2022 and 31 December 2021 there were no pending CySEC investigations against the Company.

*Central Bank of Cyprus (CBC)*
The CBC has carried out certain investigations to assess compliance of the Company under the anti-money laundering (AML) legislation which was in place during years 2008-2015 and 2015-2018.

## 37. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 37.2 Regulatory matters (continued)

Following the investigations and the on-site audit findings, the CBC concluded on 27 January 2021 that in the case of AML legislation 2008-2015 the Company was in breach of certain articles of the said legislation and prima facie, failed to act in accordance with certain provisions of the AML/counter terrorism financing (CTF) Law and the CBC AML/CTF Directive. In October 2021 a fine of €277 thousand was imposed upon the Company. The Company paid a discounted fine and has filed a recourse against this decision and fine.

Following the investigation and the on-site examination, the CBC concluded with regards to the files and transactions related to years 2015-2018, that the Company was in breach of certain articles of the legislation. In December 2021, a fine of €790 thousand was imposed upon the Company. The Company paid a discounted fine and has filed a recourse against the decision and the fine.

The CBC had conducted an investigation in the past into the Company's issuance of capital securities and concluded that the Company breached certain regulatory requirements concerning the issuance of Convertible Capital Securities (Perpetual) in 2009, but not in relation to the CECS in 2011. The CBC had, in 2013, imposed a fine of €4 thousand upon the Company, who filed a recourse. The Administrative Court cancelled both the CBC's decision and the fine that was imposed upon the Company in a respective judgment dated in 2020. CBC decided to re-examine this matter and to re-open the investigation.

The CBC has decided that between the reporting date of 31 December 2014 and until the reporting date of 31 December 2017 the Company was in breach of the requirements of the Directive on the Computation of Prudential Liability in Euro, of the Directive on the Prudential Liability in foreign currencies and of the CBC Directive on Governance and Management Arrangements in Credit Institutions. The Company was given the opportunity to express its views with regards to the identified failures and the possible imposition of sanctions. A fine of €6 thousand has been imposed upon the Company. The said fine has been paid.

*European Central Bank (ECB) Investigation*
In July 2021, the Company was notified in writing by the ECB that, based on an investigation carried out by ECB's investigating unit, the Company was in breach of an ECB decision of September 2016. The alleged breach related to the requirement imposed on the Company to seek the prior approval of the ECB for any transfer of capital or liquidity to any subsidiary company. The Governing Council of the ECB informed the Company in February 2022 of its decision to impose an administrative penalty of €575 thousand. The Company proceeded with the payment of the fine.

*Commission for the Protection of Competition Investigation (CPC)*
In April 2014, following an investigation which began in 2010, CPC issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company and JCC Payment Systems Ltd (JCC), a card processing business currently 75% owned by the Company. The Company is expecting the final conclusion of this matter and has provided for it accordingly.

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017, the CPC imposed a fine of €18 million upon the Company and the Company filed a recourse against the decision and the fine. The payment of the fine had been stayed pending the final outcome of the recourse. In June 2018, the Administrative Court accepted the Company's position and cancelled the decision as well as the fine imposed upon the Company. During 2018, the Attorney General has filed an appeal before the Supreme court with respect to such decision. Until a judgment is issued by the Supreme Court, the decision of the CPC remains annulled and there is no subsisting fine upon the Company. The said appeal is still pending as at the year end.

In 2019 the CPC initiated an ex officio investigation with respect to unfair contract terms and into the contractual arrangements/facilities offered by the Company for the period from 2012 to 2016. To date no charges have been put forward nor have any formal proceedings been instituted against the Company in this case. The Group is not aware of any further developments in this case.

**37. Provisions for pending litigation, claims, regulatory and other matters** (continued)

**37.2 Regulatory matters** (continued)

*Association for the Protection of Bank Borrowers (CYPRODAT)*
CYPRODAT filed a complaint with the Commission for the Protection of Competition (CPC) in January 2022, claiming that the Company and another bank have concerted in practices regarding the recent revisions of their commissions and charges. It also filed an application for an interim order which, if successful, would essentially freeze the implementation of the revised commissions and charges. The application for interim order was rejected by the CPC, however, the CPC reverted in April 2022 to inform the Company of the initiation of an investigation with respect to this matter. This investigation is currently at a very early stage to predict its outcome.

*Commissioner for the Protection of Personal Data (CPPD)*
The CPPD has informed the Company that based on the evidence submitted, there is a breach of Regulation 2016/679 on the protection of natural persons with regards to the processing of personal data and on the free movement of such data. The breach concerned the exchange of data under the sale of a portfolio of credit facilities which did not relate to the transaction. A fine of €17 thousand was imposed on the Company. The said fine has already been paid and the matter has now been concluded.

The Company informed the Commissioner on the procedures to follow to avoid such oversights in the future and the measures it has taken to remedy the specific breaches.

*Consumer Protection Service (CPS)*
In July 2017, CPS imposed a fine of €170 thousand upon the Company after concluding an ex officio investigation regarding some terms in both the Company's and Marfin Popular Bank's loan documentation, that were found to constitute unfair commercial practices. Decisions of the CPS (according to rulings of the Administrative Court) are not binding but merely an expression of opinion. The Company has filed a recourse before the Administrative Court against this decision. The Administrative Court has issued its judgment in 2022 in favour of the Bank and the CPS decision along with the fine have been cancelled. An appeal has been submitted by CPS with regards to this judgment, which is still pending as at the year-end.

In March 2020 the Company has been served with an application by the director of CPS through the Attorney General seeking for an order of the court, with immediate effect, the result of which will be for the Company to cease the use of a number of terms in the contracts of the Company which are deemed to be unfair under the said order. The said terms relate to contracts that had been signed during 2006-2007. Furthermore, the said application seeks for an order ordering the Company to undertake measures to remedy the situation. The Company will take all necessary steps for the protection of its interests. This matter is still pending before the court as at the year-end.

In April 2021, the Director of the Consumer Protection Service filed an application for the issuance of a court order against the Company, prohibiting the use of a number of contractual terms included in the Company's consumer contracts and the amendment of any such contracts (present and future) so as to remove such unfair terms. This matter is still pending before the court as at the year-end.

The Company received a letter in July 2021 from CPS, initiating an ex officio investigation under the Distance Marketing of Financial Services to Consumers Law, with respect to the services and products of the Company for which the contract between the Company and the consumer is entered into online via the Company's website.

The Company received another letter in July 2021 from CPS, initiating an investigation with respect to an alleged commercial practice of the Company of promoting a product.

The investigations are currently at a very early stage to predict their outcome.

## 37. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 37.2 Regulatory matters (continued)

*Cyprus Consumers' Association (CCA)*
In March 2021, the Company was served with an application filed by the CCA for the issuance of a court order prohibiting the use of a number of contractual terms included in the Company's consumer contracts and the amendment of any such contracts (present and future) so as to remove such terms deemed as unfair. The said contractual terms were determined as unfair pursuant to the decisions issued by the Consumer Protection Service of the Ministry of Energy, Commerce, Industry and Tourism against the Company in 2016 and 2017. The Company will take all necessary steps for the protection of its interests. This matter is still pending before the court as at the year-end.

The new Law on Consumer Protection brings under one umbrella the existing legislation on unfair contract terms and practices with some enhanced powers vested in the Consumer Protection Service, i.e., power to impose increased fines which are immediately payable. The new Law on Consumer Protection has a retrospective effect in that it also applies to all contracts/practices entered into and/or terminated prior to this law coming into effect as opposed to contracts/practices which are only entered into/adopted as from the date of publication of the new Law on Consumer Protection.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, is unknown.

*UK regulatory matters*
As part of the agreement for the sale of Bank of Cyprus UK Ltd, a liability with regards to UK regulatory matters remains an obligation for settlement by the Company. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management.

### 37.3 Other matters

Other matters include among others, provisions for various other open examination requests by governmental and other public bodies, legal matters and provisions for warranties and indemnities related to the disposal process of certain operations of the Company.

### 37.4 Provisions for pending litigation, claims, regulatory and other matters

| | Pending litigation and claims (Note 37.1) | Regulatory matters (Note 37.2) | Other matters (Note 37.3) | **Total** |
|---|---|---|---|---|
| **2022** | €000 | €000 | €000 | **€000** |
| 1 January | 52,660 | 14,616 | 29,828 | **97,104** |
| Net increase in provisions including unwinding of discount | 15,627 | 950 | 19,017 | **35,594** |
| Utilisation of provisions | (6,314) | (1,357) | (2) | **(7,673)** |
| Release of provisions | (3,210) | (1,037) | (100) | **(4,347)** |
| Foreign exchange adjustments | - | (53) | - | **(53)** |
| **31 December** | **58,763** | **13,119** | **48,743** | **120,625** |
| Provisions expected to be settled within 12 months post reporting date | **26,991** | **-** | **2,804** | **29,795** |

## 37. Provisions for pending litigation, claims, regulatory and other matters (continued)

### 37.4 Provisions for pending litigation, claims, regulatory and other matters (continued)

| | Pending litigation and claims (Note 37.1) | Regulatory matters (Note 37.2) | Other matters (Note 37.3) | **Total** |
|---|---|---|---|---|
| **2021** | | | | |
| 1 January | 62,255 | 10,506 | 43,850 | **116,611** |
| Net increase in provisions including unwinding of discount | 2,295 | 4,964 | 29,273 | **36,532** |
| Utilisation of provisions | (6,768) | (907) | (39,368) | **(47,043)** |
| Release of provisions | (5,122) | - | (3,927) | **(9,049)** |
| Foreign exchange adjustments | - | 53 | - | **53** |
| **31 December** | **52,660** | **14,616** | **29,828** | **97,104** |
| Provisions expected to be settled within 12 months post reporting date | **15,782** | **1,845** | **2,662** | **20,289** |

Provisions for pending litigation, claims, regulatory and other matters recorded in the income statement during the year ended 31 December 2022 amount to €11,880 thousand (2021: credit of €533 thousand, which included an amount of €841 thousand representing an amount recovered from plaintiffs directly recognised in the income statement during the year ended 31 December 2021).

Some information required by the IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation or the outcome of the negotiation in relation to provisions for warranties and indemnities related to the disposal process of certain operations of the Company.

The net increase of provisions for pending litigation and claims for the year ended 31 December 2022 was primarily driven by a one-off charge of approximately €5,542 thousand in relation to a revised approach on estimating pending litigation fees. With regards to other matters, the provisions relating to the disposal process of certain of the Company's operations have been updated on the basis of the Company's assessment and to the extent those processes have progressed.

An increase by 5% in the probability of loss rate for pending litigation and claims (2021: 5%) with all other variables held constant, would lead to an increase in the actual provision by €2,821 thousand at 31 December 2022 (2021: increase by €7,097 thousand).

## 38. Contingent liabilities and commitments

As part of the services provided to its customers, the Company enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Company (Note 43.5).

### 38.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2022 amount to €23,473 thousand (2021: €17,758 thousand).

## 38. Contingent liabilities and commitments (continued)

### 38.2 Contingent liabilities

The Company, as part of the disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Company may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been recognised, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable (Note 37.3).

## 39. Additional information on cash flow statement

**Non-cash transactions**

*Repossession of collaterals*
During the year ended 31 December 2022, the Company acquired properties by taking possession of collaterals held as security for loans and advances to customers of €17,580 thousand (2021: €30,931 thousand).

*Recognition of RoU assets and lease liabilities*
During 2022 the Company recognised RoU assets and corresponding lease liabilities of €825 thousand (2021: €472 thousand).

*Disposal of Project Helix 2*
During the year ended 31 December 2021 and upon the completion of the disposal of Project Helix 2, the Company recognised an amount of €381,567 thousand in other financial assets, which represented the fair value of the deferred consideration receivable for the transaction (the 'DPP') on completion date. Please refer to Note 27 for further details.

**Net cash flow from operating activities - interest and dividends**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Interest paid | **(98,100)** | (111,565) |
| Interest received | **543,603** | 462,735 |
| Dividends received (Note 11) | **21,542** | 25,577 |
| | **467,045** | 376,747 |

## 39. Additional information on cash flow statement (continued)

**Changes in liabilities arising from financing activities**

| | Funding from central banks (Note 29) | Debt securities in issue and Subordinated liabilities (Note 31) | **Total** |
|---|---|---|---|
| **2022** | €000 | €000 | **€000** |
| 1 January | 2,969,600 | 644,928 | **3,614,528** |
| Cash flows | (979,389) | (66,797) | **(1,046,186)** |
| Other non-cash movements | (13,537) | 23,317 | **9,780** |
| **31 December** | **1,976,674** | **601,448** | **2,578,122** |

| | | | |
|---|---|---|---|
| **2021** | | | |
| 1 January | 994,694 | 272,152 | **1,266,846** |
| Cash flows | 1,968,081 | 333,339 | **2,301,420** |
| Other non-cash movements | 6,825 | 39,437 | **46,262** |
| **31 December** | **2,969,600** | **644,928** | **3,614,528** |

Further information relating to the change in lease liabilities is disclosed in Note 41.

## 40. Cash and cash equivalents

Cash and cash equivalents comprise:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Cash and non-obligatory balances with central banks | **9,452,558** | 9,063,730 |
| Loans and advances to banks with original maturity less than three months | **95,310** | 147,375 |
| | **9,547,868** | 9,211,105 |

*Analysis of cash and balances with central banks and loans and advances to banks*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Cash and non-obligatory balances with central banks | **9,452,558** | 9,063,730 |
| Obligatory balances with central banks (Note 17) | **114,537** | 166,987 |
| Total cash and balances with central banks (Note 17) | **9,567,095** | 9,230,717 |
| Loans and advances to banks with original maturity less than three months | **95,310** | 147,375 |
| Restricted loans and advances to banks | **71,379** | 100,318 |
| Total loans and advances to banks (Note 17) | **166,689** | 247,693 |

Restricted loans and advances to banks include collaterals under derivative transactions of €7,380 thousand (2021: €41,068 thousand) which are not immediately available for use by the Company, but are released once the transactions are terminated.

## 41. Leases

The Company is a lessee for commercial properties such as office and branch buildings. The basic terms for lease contracts relating to the branch network are primarily uniform, irrespective of lessors, with the non-cancellable rental period being two years. The Company has the option to extend the tenancy for four further periods of two years each. The Company has the right at any time after the expiry of the initial term to terminate the present rental agreement by providing notice (usually 3 or 6 months' notice) to the lessor. Depending on the terms agreed, the rent is adjusted at the end of each renewal period, according to the current rates of the area and considering the relevant legislation.

Office buildings are leased by the Company for the operation of administrative functions. The basic terms for new lease contracts and the current practice are substantially the same with those for lease contracts of branches.

During the year ended 31 December 2022 the lease term of existing building contracts was re-assessed using the assumptions as detailed in Note 5.10.

The carrying amounts of the Company's RoU assets and lease liabilities and the movement during the year ended 31 December 2022 and the year ended 31 December 2021 is presented in the table below:

| **2022** | **RoU assets (Note 24)** | **Lease Liabilities (Note 32)** |
|---|---|---|
| | **€000** | **€000** |
| 1 January | **27,333** | **(27,914)** |
| Depreciation charge for the year (Note 13) | **(5,988)** | - |
| New leases (Note 24) | **825** | **(772)** |
| Assets derecognised (Note 24) | **(1,460)** | **1,456** |
| Assets recognised following re-assessment (Note 24) | **960** | **(960)** |
| Interest expense (Note 7) | **-** | **(11)** |
| Cash outflows-payments | **-** | **6,000** |
| **31 December** | **21,670** | **(22,201)** |

| **2021** | **RoU assets (Note 24)** | **Lease Liabilities (Note 32)** |
|---|---|---|
| | **€000** | **€000** |
| 1 January | 39,914 | (39,894) |
| Depreciation charge for the year (Note 13) | (7,077) | - |
| New leases (Note 24) | 472 | (472) |
| Assets derecognised (Note 24) | (5,976) | 5,606 |
| Interest expense (Note 7) | - | (31) |
| Cash outflows-payments | - | 6,877 |
| **31 December** | **27,333** | **(27,914)** |

As at 31 December 2022 RoU assets comprised of leases of buildings of a carrying amount of €20,845 thousand (2021: €27,333 thousand) and computer hardware of a carrying amount of €825 thousand (2021: nil), and are presented within Property and equipment in Note 24.

Cash outflows relate to lease payments made during the year.

The analysis of lease liabilities based on remaining contractual maturity is disclosed in Note 45.

## 42. Analysis of assets and liabilities by expected maturity

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Less than one year** | **Over one year** | **Total** | Less than one year | Over one year | Total |
| **Assets** | **€000** | **€000** | **€000** | €000 | €000 | €000 |
| Cash and balances with central banks | **9,452,558** | **114,537** | **9,567,095** | 9,063,730 | 166,987 | 9,230,717 |
| Loans and advances to banks | **95,310** | **71,379** | **166,689** | 147,375 | 100,318 | 247,693 |
| Derivative financial assets | **904** | **47,249** | **48,153** | 4,556 | 2,097 | 6,653 |
| Investments | **444,540** | **2,066,889** | **2,511,429** | 350,911 | 1,579,287 | 1,930,198 |
| Loans and advances to customers | **879,810** | **9,073,111** | **9,952,921** | 1,017,635 | 8,817,899 | 9,835,534 |
| Balances with Group companies | **123,231** | **442,894** | **566,125** | 105,770 | 561,955 | 667,725 |
| Prepayments, accrued income and other assets | **189,559** | **323,582** | **513,141** | 58,522 | 440,916 | 499,438 |
| Stock of property | **92,400** | **349,416** | **441,816** | 94,700 | 418,589 | 513,289 |
| Deferred tax assets | **37,909** | **189,546** | **227,455** | 37,909 | 227,455 | 265,364 |
| Property, equipment and intangible assets | **-** | **239,115** | **239,115** | - | 249,310 | 249,310 |
| Investment properties | **9,600** | **16,751** | **26,351** | 10,300 | 23,825 | 34,125 |
| Investment in subsidiaries | **-** | **161,550** | **161,550** | 4,212 | 87,006 | 91,218 |
| Non-current assets and disposal groups held for sale | **-** | **-** | **-** | 338,630 | - | 338,630 |
| | **11,325,821** | **13,096,019** | **24,421,840** | 11,234,250 | 12,675,644 | 23,909,894 |
| **Liabilities** | | | | | | |
| Deposits by banks | **185,525** | **315,856** | **501,381** | 95,511 | 356,449 | 451,960 |
| Funding from central banks | **1,976,674** | **-** | **1,976,674** | 2,969,600 | - | 2,969,600 |
| Derivative financial liabilities | **10,538** | **5,631** | **16,169** | 4,830 | 27,622 | 32,452 |
| Customer deposits | **5,893,802** | **13,104,517** | **18,998,319** | 6,909,913 | 10,620,970 | 17,530,883 |
| Balances with Group companies | **97,513** | **-** | **97,513** | 67,929 | - | 67,929 |
| Accruals, deferred income, other liabilities and other provisions and provisions for pending litigation, claims, regulatory and other matters | **233,405** | **156,247** | **389,652** | 217,077 | 150,930 | 368,007 |
| Debt securities in issue and subordinated liabilities | **-** | **601,448** | **601,448** | 38,561 | 606,367 | 644,928 |
| Deferred tax liabilities | **-** | **19,644** | **19,644** | - | 20,435 | 20,435 |
| | **8,397,457** | **14,203,343** | **22,600,800** | 10,303,421 | 11,782,773 | 22,086,194 |

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

Cash and balances with central banks are classified in the relevant time band based on the contractual maturity, with the exception of obligatory balances with central banks which are classified in the 'Over one year' time band.

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one.

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'Over one year' time band. The Stage 3 loans are classified in the 'Over one year' time band except cash flows from expected receipts which are included within time bands, according to historic amounts of receipts in the recent months.

## 42. Analysis of assets and liabilities by expected maturity (continued)

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits maturing within one year is classified in the 'Over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

## 43. Risk management - Credit risk

In the ordinary course of its business the Company is exposed to credit risk which is monitored through various control mechanisms in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their credit obligations towards the Company.

The Credit Risk Management department in co-operation with the Credit Risk Control and Monitoring department set the Company's credit disbursement policies and monitor compliance with credit risk policy applicable to each business line and the quality of the Company's loans and advances portfolio through the timely credit risk assessment of customers. The credit exposures of related accounts are aggregated and monitored on a consolidated basis.

The Credit Risk Management department, in co-operation with the Credit Risk Control and Monitoring department, also safeguard the effective management of credit risk at all stages of the credit cycle, monitor the quality of decisions and processes and ensure that the credit sanctioning function is being properly managed.

The credit policies complemented by the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments of the customers' creditworthiness, their economic sector of activity and geographical concentration.

The credit risk exposure of the Company is diversified across the various industry sectors of the economy. Credit Risk Management department determines concentration limits for each industry sector, sets prohibited sectors and defines sectors which may require prior approval before credit applications are submitted.

The Market Risk department assesses the credit risk relating to exposures to Credit Institutions and Governments and other debt securities. Models and limits are presented to and approved by the Board of Directors, through the relevant authority based on the authorisation level limits.

The Company's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5 'Significant and other judgements, estimates and assumptions' of these Financial Statements.

## 43. Risk management - Credit risk (continued)

### 43.1 Maximum exposure to credit risk and collateral and other credit enhancements

*Loans and advances to customers*
The Credit Risk Management department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Company are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on contracts of sale and personal and corporate guarantees.

The Company regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

*Off-balance sheet exposures*
The Company offers guarantee facilities to its customers under which the Company may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee facilities (including standby letters of credit) commit the Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Company to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

*Other financial instruments*
Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Company has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions. As at 31 December 2022, the majority of derivative exposures are covered by ISDA netting arrangements. A detailed analysis of derivative asset and liability exposures is available in Note 19. Information about the Company's collaterals under derivative transactions is provided in Note 40.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Company sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

*Maximum Exposure to credit risk*
The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

## 43. Risk management - Credit risk (continued)

### 43.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

| | Maximum exposure to credit risk | Fair value of collateral and credit enhancements held by the Company | | | | | | | Net exposure to credit risk |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash | Securities | Letters of credit/ guarantee | Property | Other | Surplus collateral | Net collateral | |
| **2022** | **€000** | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Balances with central banks (Note 17) | **9,475,388** | - | - | - | - | - | - | - | **9,475,388** |
| Loans and advances to banks (Note 17) | **166,689** | 37,251 | - | - | - | - | - | 37,251 | **129,438** |
| FVPL debt securities (Note 18) | **7,870** | - | - | - | - | - | - | - | **7,870** |
| Debt securities classified at amortised cost and FVOCI (Note 18) | **2,492,535** | - | - | - | - | - | - | - | **2,492,535** |
| Derivative financial instruments (Note 19) | **48,153** | - | - | - | - | - | - | - | **48,153** |
| Loans and advances to customers (Note 21) | **9,952,921** | 505,950 | 556,487 | 133,305 | 15,799,569 | 273,789 | (8,231,543) | 9,037,557 | **915,364** |
| Debtors (Note 27) | **10** | - | - | - | - | - | - | - | **10** |
| Balances with group companies (Note 22) | **566,125** | - | - | - | - | - | - | - | **566,125** |
| Deferred purchase payment consideration (Note 27) | **311,523** | - | - | - | - | - | - | - | **311,523** |
| Other assets (Note 27) | **55,957** | - | - | - | - | - | - | - | **55,957** |
| **On-balance sheet total** | **23,077,171** | **543,201** | **556,487** | **133,305** | **15,799,569** | **273,789** | **(8,231,543)** | **9,074,808** | **14,002,363** |
| *Contingent liabilities* | | | | | | | | | |
| Acceptances and endorsements | **5,175** | 276 | - | - | 4,886 | 13 | - | 5,175 | **-** |
| Guarantees | **657,219** | 99,554 | 1,039 | 4,630 | 197,912 | 384 | - | 303,519 | **353,700** |
| *Commitments* | | | | | | | | | |
| Documentary credits | **17,624** | 892 | 4 | 1,734 | 4,253 | 12 | - | 6,895 | **10,729** |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | **1,979,462** | 32,164 | 4,069 | 1,465 | 406,074 | 26,876 | - | 470,648 | **1,508,814** |
| **Off-balance sheet total** | **2,659,480** | **132,886** | **5,112** | **7,829** | **613,125** | **27,285** | **-** | **786,237** | **1,873,243** |
| | **25,736,651** | **676,087** | **561,599** | **141,134** | **16,412,694** | **301,074** | **(8,231,543)** | **9,861,045** | **15,875,606** |

## 43. Risk management - Credit risk (continued)

### 43.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

| | Maximum exposure to credit risk | Fair value of collateral and credit enhancements held by the Company | | | | | | | Net exposure to credit risk |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash | Securities | Letters of credit/ guarantee | Property | Other | Surplus collateral | Net collateral | |
| **2021** | **€000** | €000 | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Balances with central banks (Note 17) | **9,087,815** | - | - | - | - | - | - | - | **9,087,815** |
| Loans and advances to banks (Note 17) | **247,693** | 3,490 | - | - | - | - | - | 3,490 | **244,203** |
| FVPL debt securities (Note 18) | **4,009** | - | - | - | - | - | - | - | **4,009** |
| Debt securities classified at amortised cost and FVOCI (Note 18) | **1,915,033** | - | - | - | - | - | - | - | **1,915,033** |
| Derivative financial instruments (Note 19) | **6,653** | - | - | - | - | - | - | - | **6,653** |
| Loans and advances to customers (Note 21) | **9,835,534** | 476,390 | 587,309 | 140,995 | 15,149,403 | 265,660 | (7,780,914) | 8,838,843 | **996,691** |
| Loans and advances to customers classified as held for sale (Note 28) | **250,356** | 85 | 88 | 2,954 | 487,743 | 36,431 | (279,895) | 247,406 | **2,950** |
| Debtors (Note 27) | **11** | - | - | - | - | - | - | - | **11** |
| Deferred purchase payment consideration (Note 27) | **299,766** | - | - | - | - | - | - | - | **299,766** |
| Balances with group companies (Note 22) | **667,725** | - | - | - | - | - | - | - | **667,725** |
| Other assets (Note 27) | **54,864** | - | - | - | - | - | - | - | **54,864** |
| **On-balance sheet total** | **22,369,459** | **479,965** | **587,397** | **143,949** | **15,637,146** | **302,091** | **(8,060,809)** | **9,089,739** | **13,279,720** |
| *Contingent liabilities* | | | | | | | | | |
| Acceptances and endorsements | **4,625** | 285 | - | - | 4,334 | 6 | - | 4,625 | **-** |
| Guarantees | **615,958** | 105,508 | 4,898 | 2,555 | 177,171 | 391 | - | 290,523 | **325,435** |
| *Commitments* | | | | | | | | | |
| Documentary credits | **11,264** | 729 | - | - | 5,488 | 19 | - | 6,236 | **5,028** |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | **2,024,198** | 28,541 | 1,006 | 1,182 | 420,337 | 18,976 | - | 470,042 | **1,554,156** |
| **Off-balance sheet total** | **2,656,045** | **135,063** | **5,904** | **3,737** | **607,330** | **19,392** | **-** | **771,426** | **1,884,619** |
| | **25,025,504** | **615,028** | **593,301** | **147,686** | **16,244,476** | **321,483** | **(8,060,809)** | **9,861,165** | **15,164,339** |

The contingent liabilities and commitments as at 31 December 2021 include exposures relating to loans and advances to customers classified as held for sale amounting to €1,286 thousand which relate to the Cyprus geographical area.

## 43. Risk management - Credit risk (continued)

### 43.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. The Company's Risk Appetite Statement may impose stricter concentration limits which are monitored by the Company.

The credit risk concentration, which is based on industry (economic activity) and business line, as well as the geographical concentration, is presented below.

The geographical analysis, for credit risk concentration purposes, is based on the Company's Country Risk Policy which is followed for monitoring the Company's exposures. Market and Liquidity Risk department is responsible for analysing the country risk of exposures. ALCO reviews the country risk of exposures on a quarterly basis and the Board, through its Risk Committee, reviews the country risk of exposures and any breaches of country risk limits on a regular basis and at least annually.

The table below presents the geographical concentration of loans and advances to customers by country of risk based on the country of residency for individuals and the country of registration for companies.

| **2022** | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | **Gross loans at amortised cost** |
|---|---|---|---|---|---|---|---|
| **By economic activity** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Trade | 922,093 | 384 | 37 | 2 | - | 33 | **922,549** |
| Manufacturing | 323,074 | 44,978 | - | - | - | 27,943 | **395,995** |
| Hotels and catering | 928,346 | 16,565 | 35,614 | - | - | 40,086 | **1,020,611** |
| Construction | 545,421 | 8,955 | 23 | - | 1 | 20 | **554,420** |
| Real estate | 978,708 | 94,823 | 1,866 | 5,848 | - | 45,769 | **1,127,014** |
| Private individuals | 4,496,081 | 11,146 | 73,120 | 401 | 19,101 | 54,586 | **4,654,435** |
| Professional and other services | 551,269 | 980 | 5,311 | 886 | 1 | 36,923 | **595,370** |
| Other sectors | 440,873 | 2 | - | - | 3 | 203,765 | **644,643** |
| | **9,185,865** | **177,833** | **115,971** | **7,137** | **19,106** | **409,125** | **9,915,037** |

| **2022** | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | **Gross loans at amortised cost** |
|---|---|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Corporate and Large corporate | 3,380,559 | 17,781 | 50 | - | - | 102 | **3,398,492** |
| International corporate | 139,813 | 152,143 | 42,327 | 5,850 | - | 345,175 | **685,308** |
| SMEs | 1,021,933 | 1,036 | 1,451 | 17 | - | 2,171 | **1,026,608** |
| Retail | | | | | | | |
| - housing | 3,272,253 | 2,450 | 36,839 | 219 | 186 | 18,687 | **3,330,634** |
| - consumer, credit cards and other | 885,558 | 856 | 576 | 5 | 1 | 900 | **887,896** |
| Restructuring | | | | | | | |
| - corporate | 66,151 | - | 869 | 869 | - | 63 | **67,952** |
| - SMEs | 48,027 | - | 432 | - | 158 | 384 | **49,001** |
| - retail housing | 70,283 | 104 | 1,841 | - | 291 | 114 | **72,633** |
| - retail other | 24,093 | 16 | 21 | - | 192 | 21 | **24,343** |
| Recoveries | | | | | | | |
| - corporate | 19,063 | - | 452 | - | 170 | 34 | **19,719** |
| - SMEs | 26,150 | - | 1,117 | - | 2,664 | 1,774 | **31,705** |
| - retail housing | 69,790 | 260 | 19,778 | 64 | 3,431 | 9,672 | **102,995** |
| - retail other | 31,967 | 12 | 1,265 | - | 49 | 337 | **33,630** |
| International banking services | 90,652 | 1,722 | 8,953 | 113 | 11,964 | 24,470 | **137,874** |
| Wealth management | 39,573 | 1,453 | - | - | - | 5,221 | **46,247** |
| | **9,185,865** | **177,833** | **115,971** | **7,137** | **19,106** | **409,125** | **9,915,037** |

## 43. Risk management - Credit risk (continued)

### 43.2 Credit risk concentration of loans and advances to customers (continued)

| 2021 | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | **Gross loans at amortised cost** |
|---|---|---|---|---|---|---|---|
| **By economic activity** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Trade | 977,703 | 505 | 122 | 60 | 2 | 146 | **978,538** |
| Manufacturing | 303,372 | 179 | - | - | - | 25,674 | **329,225** |
| Hotels and catering | 881,205 | 33,422 | 37,450 | - | - | 40,123 | **992,200** |
| Construction | 510,928 | 9,005 | 108 | 99 | - | 58 | **520,198** |
| Real estate | 959,891 | 125,123 | 1,950 | 11,443 | - | 49,293 | **1,147,700** |
| Private individuals | 4,379,843 | 9,185 | 121,260 | 1,057 | 37,315 | 73,997 | **4,622,657** |
| Professional and other services | 543,424 | 1,007 | 5,516 | 837 | 1,237 | 35,142 | **587,163** |
| Other sectors | 458,005 | 7 | 40 | - | 8 | 182,285 | **640,345** |
| | **9,014,371** | **178,433** | **166,446** | **13,496** | **38,562** | **406,718** | **9,818,026** |

| 2021 (restated) | Cyprus | Greece | United Kingdom | Romania | Russia | Other countries | **Gross loans at amortised cost** |
|---|---|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | €000 | €000 | **€000** |
| Corporate and Large corporate | 3,309,761 | 34,248 | 60 | 99 | 17 | 113 | **3,344,298** |
| International corporate | 126,808 | 134,531 | 44,132 | 11,742 | - | 320,730 | **637,943** |
| SMEs | 1,038,599 | 773 | 1,869 | - | - | 2,345 | **1,043,586** |
| Retail | | | | | | | |
| - housing | 3,068,097 | 3,466 | 47,742 | 629 | 4,513 | 26,819 | **3,151,266** |
| - consumer, credit cards and other | 884,231 | 1,101 | 760 | 126 | 237 | 2,232 | **888,687** |
| Restructuring | | | | | | | |
| - corporate | 60,446 | - | 526 | - | 32 | 1,213 | **62,217** |
| - SMEs | 69,501 | - | 338 | - | - | 340 | **70,179** |
| - retail housing | 80,730 | 152 | 3,058 | - | 392 | 752 | **85,084** |
| - retail other | 32,611 | 14 | 132 | - | 3 | 238 | **32,998** |
| Recoveries | | | | | | | |
| - corporate | 35,010 | - | - | 589 | 219 | 256 | **36,074** |
| - SMEs | 30,505 | - | 2,557 | 2 | 3,699 | 2,554 | **39,317** |
| - retail housing | 109,945 | 382 | 45,158 | 167 | 9,254 | 18,213 | **183,119** |
| - retail other | 54,959 | 30 | 4,356 | 4 | 1,557 | 1,304 | **62,210** |
| International banking services | 76,314 | 2,402 | 15,211 | 138 | 18,639 | 23,214 | **135,918** |
| Wealth management | 36,854 | 1,334 | 547 | - | - | 6,395 | **45,130** |
| | **9,014,371** | **178,433** | **166,446** | **13,496** | **38,562** | **406,718** | **9,818,026** |

The loans and advances to customers include lending exposures in Cyprus with collaterals in Greece with a carrying value as at 31 December 2022 of €106,701 thousand (2021: €100,039 thousand).

The loans and advances to customers reported within 'Other countries' as at 31 December 2022 include exposures of €2,6 million in Ukraine (2021: €3,6 million).

The loans and advances to customers reported within 'Other sectors' as at 31 December 2022 include exposures of €187 million for the Shipping sector (2021: €176 million).

Economic activity, geographical and business line concentrations of Company loans and advances to customers at amortised cost classified as held for sale are presented in the table below. There were no loans and advances to customers held for sale as at 31 December 2022.

## 43. Risk management - Credit risk (continued)

### 43.2 Credit risk concentration of loans and advances to customers (continued)

| 2021 | Cyprus | United Kingdom | Romania | Russia | Other countries | Gross loans at amortised cost |
|---|---|---|---|---|---|---|
| **By economic activity** | €000 | €000 | €000 | €000 | €000 | **€000** |
| Trade | 56,859 | - | 514 | - | - | **57,373** |
| Manufacturing | 24,688 | 1 | 110 | - | - | **24,799** |
| Hotels and catering | 14,794 | 1 | 278 | - | - | **15,073** |
| Construction | 28,226 | - | 231 | - | - | **28,457** |
| Real estate | 4,575 | - | 9,164 | - | - | **13,739** |
| Private individuals | 369,168 | 1,070 | 55 | 804 | 4,087 | **375,184** |
| Professional and other services | 27,866 | 2 | 1,466 | - | - | **29,334** |
| Other sectors | 11,476 | - | 77 | - | 32 | **11,585** |
| | **537,652** | **1,074** | **11,895** | **804** | **4,119** | **555,544** |

| 2021(restated) | Cyprus | United Kingdom | Romania | Russia | Other countries | Gross loans at amortised cost |
|---|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | €000 | **€000** |
| International corporate | - | - | 10,441 | - | 32 | **10,473** |
| Retail | | | | | | |
| - housing | 139 | - | - | - | - | **139** |
| - consumer, credit cards and other | 2 | - | - | - | - | **2** |
| Restructuring | | | | | | |
| - corporate | 374 | - | - | - | - | **374** |
| - SMEs | 5,301 | - | - | - | - | **5,301** |
| - retail housing | 23,769 | 501 | - | - | 34 | **24,304** |
| - retail other | 12,702 | - | - | - | - | **12,702** |
| Recoveries | | | | | | |
| - corporate | 8,090 | - | 1,111 | - | - | **9,201** |
| - SMEs | 17,923 | 1 | 343 | 766 | 381 | **19,414** |
| - retail housing | 238,791 | 566 | - | 38 | 3,210 | **242,605** |
| - retail other | 230,561 | 6 | - | - | 462 | **231,029** |
| | **537,652** | **1,074** | **11,895** | **804** | **4,119** | **555,544** |

## 43. Risk management - Credit risk (continued)

### 43.3 Analysis of loans and advances to customers, including loans and advances to customers held for sale

The movement of the gross loans and advances to customers at amortised cost by staging, including the loans and advances to customers classified as held for sale, is presented in the tables below:

| 2022 | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total<br>€000** |
|---|---|---|---|---|---|
| 1 January | 7,418,432 | 1,701,255 | 1,025,311 | 228,572 | **10,373,570** |
| Transfers to stage 1 | 534,045 | (532,847) | (1,198) | - | **-** |
| Transfers to stage 2 | (409,997) | 479,829 | (69,832) | - | **-** |
| Transfers to stage 3 | (22,885) | (34,796) | 57,681 | - | **-** |
| Foreign exchange and other adjustments | - | - | 17 | - | **17** |
| Write offs | (788) | (683) | (145,434) | (22,774) | **(169,679)** |
| Interest accrued and other adjustments | 187,450 | 69,085 | 63,857 | 18,100 | **338,492** |
| New loans originated or purchased and drawdowns of existing facilities | 1,825,387 | 119,244 | 12,182 | 1,191 | **1,958,004** |
| Loans derecognised or repaid (excluding write offs) | (1,659,230) | (234,770) | (104,623) | (31,596) | **(2,030,219)** |
| Changes to contractual cash flows due to modifications | (5,286) | 2,669 | (4,628) | (704) | **(7,949)** |
| Disposal of Helix 3 and Sinope portfolios | (91) | (3,383) | (464,394) | (79,331) | **(547,199)** |
| **31 December** | **7,867,037** | **1,565,603** | **368,939** | **113,458** | **9,915,037** |

| 2021 | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total<br>€000** |
|---|---|---|---|---|---|
| 1 January | 6,614,721 | 2,145,329 | 2,476,961 | 479,015 | **11,716,026** |
| Transfers to stage 1 | 1,053,432 | (1,051,363) | (2,069) | - | **-** |
| Transfers to stage 2 | (575,203) | 657,895 | (82,692) | - | **-** |
| Transfers to stage 3 | (15,136) | (35,918) | 51,054 | - | **-** |
| Foreign exchange and other adjustments | 13 | 1 | 16 | (1) | **29** |
| Write offs | (518) | (843) | (246,048) | (40,657) | **(288,066)** |
| Interest accrued and other adjustments | 136,340 | 104,182 | 119,123 | 31,535 | **391,180** |
| New loans originated or purchased and drawdowns of existing facilities | 1,614,893 | 85,901 | 4,046 | 11,481 | **1,716,321** |
| Loans other than Helix 2 portfolio derecognised or repaid (excluding write offs) | (1,399,351) | (190,449) | (192,356) | (76,968) | **(1,859,124)** |
| Changes to contractual cash flows due to modifications | (2,351) | 3,461 | (14,942) | (2,119) | **(15,951)** |
| Disposal of Helix 2 portfolio | (8,408) | (16,941) | (1,087,782) | (173,714) | **(1,286,845)** |
| **31 December** | **7,418,432** | **1,701,255** | **1,025,311** | **228,572** | **10,373,570** |

For revolving facilities, overdrafts and credit cards the net positive change in balance by stage excluding write-offs is reported in ‘New loans originated’ and the net negative change is reported as ‘Loans derecognised or repaid'.

The analysis of gross loans and advances to customers at amortised cost by staging and by business line concentration in included in Note 23.

## 43. Risk management - Credit risk (continued)

### 43.3 Analysis of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of gross loans and advances to customers at amortised cost, in the Corporate and Large corporate, International corporate, Retail business lines in Cyprus (the country where the loans are managed), including loans and advances to customers classified as held for sale, are presented in the tables below:

| **2022** | **Corporate and Large corporate €000** | **International corporate €000** | **Retail €000** |
|---|---|---|---|
| 1 January | 3,344,298 | 632,206 | 4,040,108 |
| Transfers (out of)/in business line | (23,764) | 1,506 | (5,291) |
| Write offs | (14) | - | (1,866) |
| Interest accrued | 104,907 | 29,842 | 86,701 |
| New loans originated or purchased | 859,742 | 179,815 | 679,538 |
| Loans other than held for sale portfolios derecognised or repaid (excluding write offs) | (889,683) | (157,457) | (581,009) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 3,006 | (604) | 349 |
| **31 December** | **3,398,492** | **685,308** | **4,218,530** |

| **2021 (restated)** | Corporate and Large corporate €000 | International corporate €000 | Retail €000 |
|---|---|---|---|
| 1 January | 3,194,024 | 599,619 | 3,844,562 |
| Transfers in/(out of) business line | 36,745 | 91 | (2,808) |
| Write offs | (284) | (1,827) | (1,704) |
| Interest accrued | 101,964 | 29,040 | 89,885 |
| New loans originated or purchased | 756,016 | 150,866 | 628,425 |
| Loans other than held for sale portfolios derecognised or repaid (excluding write offs) | (743,523) | (144,665) | (519,142) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | (644) | (918) | 890 |
| **31 December** | **3,344,298** | **632,206** | **4,040,108** |

*Loans and advances to customers classified as held for sale*

The following table presents the Company's gross loans and advances to customers at amortised cost classified as held for sale as at 31 December 2021, by staging and business line concentration which is included in the movement table above.

| **2021** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | - | 2,132 | 476,293 | 96,209 | **574,634** |
| Residual fair value adjustment on initial recognition | - | (57) | (2,079) | (16,954) | **(19,090)** |
| **Gross loans at amortised cost** | **-** | **2,075** | **474,214** | **79,255** | **555,544** |

## 43. Risk management - Credit risk (continued)

### 43.3 Analysis of loans and advances to customers, including loans and advances to customers held for sale (continued)

| **2021(restated)** | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | **€000** |
| International corporate | - | - | 10,470 | 3 | **10,473** |
| Retail | | | | | |
| - housing | - | - | 139 | - | **139** |
| - consumer, credit cards and other | - | - | 2 | - | **2** |
| Restructuring | | | | | |
| - corporate | - | - | 374 | - | **374** |
| - SMEs | - | 718 | 3,842 | 741 | **5,301** |
| - retail housing | - | 804 | 22,113 | 1,387 | **24,304** |
| - retail other | - | 553 | 11,543 | 606 | **12,702** |
| Recoveries | | | | | |
| - corporate | - | - | 8,507 | 694 | **9,201** |
| - SMEs | - | - | 17,653 | 1,761 | **19,414** |
| - retail housing | - | - | 204,956 | 37,649 | **242,605** |
| - retail other | - | - | 194,615 | 36,414 | **231,029** |
| | **-** | **2,075** | **474,214** | **79,255** | **555,544** |

### 43.4 Credit quality of loans and advances to customers based on the internal credit rating

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for the key portfolios of the Company. For the purposes of credit scoring, these portfolios are Corporate, Retail and SMEs. Corporate and SME portfolios include legal entities. Retail portfolio includes individuals.

Scoring models use internal and external data to assess and 'score' borrowers and their credit quality, in order to provide further input on managing limits for existing loans and collection activities. The data is specific to the borrower but additional data which could affect the borrower's behaviour is also used.

Credit score is one of the factors employed on new clients and management of existing clients. The credit score of the borrower is used to assess the credit quality for each independent acquisition or account management action, leading to an automated decision or guidance for an adjudicator. Credit scoring enhances the credit decision quality and facilitates risk-based pricing where feasible.

Borrower score defines the rating of the borrower from a range of 1-8 where 8 is defined as defaulted. The 12 months probability of default (PDs) are calculated per rating. The following table presents weighted PD per risk level's rating for corporate, retail and SME exposures.

Unrated corporate exposures are assessed using the Company's in-house behavioural scorecard model for corporate legal entities. Unrated retail exposures include qualifying revolving facilities without scoring (i.e. prepaid cards) and other revolving facilities (i.e. financial guarantees) which are assigned a more generic curve. Similarly unrated SME exposures are assigned a more generic segment curve.

New customers for corporate and SME legal entities and new lending to retail individuals are separately disclosed since a time span of seven months is necessary in order to provide an accurate rating.

The portfolios weighted PDs per rating are presented below.

**43. Risk management - Credit risk** (continued)

**43.4 Credit quality of loans and advances to customers based on the internal credit rating** (continued)

| **2022** | **12-month PD** | | |
|---|---|---|---|
| **Rating** | **Corporate legal entities %** | **Retail individuals %** | **SME legal entities %** |
| 1 | 1.19 | 0.66 | 0.34 |
| 2 | 1.87 | 0.64 | 0.66 |
| 3 | 2.02 | 1.39 | 1.89 |
| 4 | 2.96 | 2.64 | 7.23 |
| 5 | 4.48 | 4.92 | 9.46 |
| 6 | 4.97 | 8.58 | 14.87 |
| 7 | 10.15 | 24.02 | 30.77 |

| **2021** | **12-month PD** | | |
|---|---|---|---|
| **Rating** | **Corporate legal entities %** | **Retail individuals %** | **SME legal entities %** |
| 1 | 1.38 | 0.80 | 0.36 |
| 2 | 2.20 | 0.79 | 0.75 |
| 3 | 2.37 | 1.68 | 2.22 |
| 4 | 3.42 | 3.24 | 7.70 |
| 5 | 5.32 | 6.24 | 12.96 |
| 6 | 5.82 | 10.04 | 17.87 |
| 7 | 11.89 | 27.14 | 36.63 |

Lower rating exposures demonstrate a better capacity to meet financial commitments, with lower probability of default, whereas higher rating exposures require varying degrees of special attention and default risk is of greater concern.

The tables below show the gross loans and advances to customers at amortised cost which are managed in Cyprus, using the corporate legal entities, SMEs legal entities and retail individuals definition as per the internal rating of the Company.

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Corporate legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 512,071 | 5,576 | **517,647** | 371,648 | 9,550 | **381,198** |
| Rating 2 | 235,753 | 5,858 | **241,611** | 124,963 | 1,120 | **126,083** |
| Rating 3 | 762,397 | 94,105 | **856,502** | 689,030 | 43,870 | **732,900** |
| Rating 4 | 565,591 | 43,690 | **609,281** | 729,502 | 119,522 | **849,024** |
| Rating 5 | 592,963 | 207,831 | **800,794** | 578,247 | 289,389 | **867,636** |
| Rating 6 | 94,690 | 292,027 | **386,717** | 167,752 | 307,445 | **475,197** |
| Rating 7 | 32,481 | 152,941 | **185,422** | 8,680 | 129,996 | **138,676** |
| Unrated | 190,253 | 18,602 | **208,855** | 120,016 | 106,826 | **226,842** |
| New customers | 427,647 | 37,570 | **465,217** | 386,841 | 49,745 | **436,586** |
| | **3,413,846** | **858,200** | **4,272,046** | **3,176,679** | **1,057,463** | **4,234,142** |
| Total Stage 3 and POCI | | | **144,920** | | | **191,972** |
| | | | **4,416,966** | | | **4,426,114** |

## 43. Risk management - Credit risk (continued)

### 43.4 Credit quality of loans and advances to customers based on the internal credit rating (continued)

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 895,267 | 42,998 | **938,265** | 795,577 | 37,566 | **833,143** |
| Rating 2 | 1,066,411 | 29,995 | **1,096,406** | 965,269 | 34,373 | **999,642** |
| Rating 3 | 845,204 | 72,153 | **917,357** | 756,588 | 53,053 | **809,641** |
| Rating 4 | 592,998 | 99,388 | **692,386** | 562,838 | 81,779 | **644,617** |
| Rating 5 | 197,743 | 78,861 | **276,604** | 224,332 | 80,133 | **304,465** |
| Rating 6 | 64,234 | 77,217 | **141,451** | 114,346 | 105,725 | **220,071** |
| Rating 7 | 17,820 | 80,259 | **98,079** | 27,568 | 101,290 | **128,858** |
| Unrated | - | 2,660 | **2,660** | - | 2,681 | **2,681** |
| New customers | 268,676 | 13,017 | **281,693** | 292,088 | 15,808 | **307,896** |
| | **3,948,353** | **496,548** | **4,444,901** | **3,738,606** | **512,408** | **4,251,014** |
| Total Stage 3 and POCI | | | **288,998** | | | **462,882** |
| | | | **4,733,899** | | | **4,713,896** |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **SMEs legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 161,411 | 33,555 | **194,966** | 183,001 | 12,159 | **195,160** |
| Rating 2 | 175,934 | 71,421 | **247,355** | 181,836 | 29,316 | **211,152** |
| Rating 3 | 32,209 | 29,154 | **61,363** | 43,425 | 16,911 | **60,336** |
| Rating 4 | 9,432 | 25,850 | **35,282** | 15,454 | 18,447 | **33,901** |
| Rating 5 | 6,656 | 7,842 | **14,498** | 8,260 | 16,252 | **24,512** |
| Rating 6 | 5,889 | 10,307 | **16,196** | 5,793 | 8,019 | **13,812** |
| Rating 7 | 3,431 | 5,347 | **8,778** | 3,249 | 6,496 | **9,745** |
| Unrated | 49,172 | 24,648 | **73,820** | - | 18,198 | **18,198** |
| New customers | 60,704 | 2,731 | **63,435** | 62,129 | 3,511 | **65,640** |
| | **504,838** | **210,855** | **715,693** | **503,147** | **129,309** | **632,456** |
| Total Stage 3 and POCI | | | **48,479** | | | **45,560** |
| | | | **764,172** | | | **678,016** |

*Loans and advances to customers classified as held for sale*

An analysis of gross loans and advances to customers classified as held for sale as at 31 December 2021, as per the internal rating system of the Company is disclosed in the tables below.

| | 2021 | | |
|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** |
| **Corporate legal entities** | €000 | €000 | **€000** |
| Total Stage 3 and POCI | | | **64,759** |
| | | | **64,759** |

## 43. Risk management - Credit risk (continued)

### 43.4 Credit quality of loans and advances to customers based on the internal credit rating (continued)

| | 2021 | | |
|---|---|---|---|
| **Retail individuals** | Stage 1 €000 | Stage 2 €000 | **Total €000** |
| Rating 4 | - | 111 | **111** |
| Rating 6 | - | 98 | **98** |
| Rating 7 | - | 1,464 | **1,464** |
| | **-** | **1,673** | **1,673** |
| Total Stage 3 and POCI | | | **400,861** |
| | | | **402,534** |

| | 2021 | | |
|---|---|---|---|
| **SMEs legal entities** | Stage 1 €000 | Stage 2 €000 | **Total €000** |
| Rating 2 | - | 55 | **55** |
| Rating 4 | - | 326 | **326** |
| Rating 5 | - | 1 | **1** |
| Rating 7 | - | 20 | **20** |
| | **-** | **402** | **402** |
| Total Stage 3 and POCI | | | **87,849** |
| | | | **88,251** |

### 43.5 Contingent liabilities and commitments

The Company enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

#### 43.5.1 Contingent liabilities

An analysis of changes in the outstanding nominal amount of exposures and the corresponding ECLs are disclosed in the tables below:

| **2022** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Exposures** | | | | |
| 1 January | 438,591 | 136,324 | 45,668 | **620,583** |
| Transfers to stage 1 | 30,378 | (30,378) | - | **-** |
| Transfers to stage 2 | (20,997) | 22,353 | (1,356) | **-** |
| Transfers to stage 3 | (9) | (3,288) | 3,297 | **-** |
| Net increase/(decrease) | 67,223 | (14,385) | (11,027) | **41,811** |
| **31 December** | **515,186** | **110,626** | **36,582** | **662,394** |

**43. Risk management - Credit risk** (continued)

**43.5 Contingent liabilities and commitments** (continued)

**43.5.1 Contingent liabilities** (continued)

| **2021** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Exposures** | | | | |
| 1 January | 214,845 | 363,019 | 52,756 | **630,620** |
| Transfers to stage 1 | 151,638 | (151,638) | - | **-** |
| Transfers to stage 2 | (18,674) | 22,983 | (4,309) | **-** |
| Transfers to stage 3 | (143) | (1,548) | 1,691 | **-** |
| Net increase/(decrease) | 90,925 | (96,492) | (4,470) | **(10,037)** |
| **31 December** | **438,591** | **136,324** | **45,668** | **620,583** |

| **2022** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 20 | 124 | 21,613 | **21,757** |
| Transfers to stage 1 | 7 | (7) | - | **-** |
| Transfers to stage 2 | (16) | 16 | - | **-** |
| Transfers to stage 3 | - | (27) | 27 | **-** |
| Charge/(credit) for the year* | 108 | 4 | (4,627) | **(4,515)** |
| **31 December** | **119** | **110** | **17,013** | **17,242** |
| Individually assessed | 77 | 71 | 17,013 | **17,161** |
| Collectively assessed | 42 | 39 | - | **81** |
| | **119** | **110** | **17,013** | **17,242** |

| **2021** | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 42 | 695 | 18,370 | **19,107** |
| Transfers to stage 1 | 14 | (14) | - | **-** |
| Transfers to stage 2 | (13) | (273) | 286 | **-** |
| (Credit)/charge for the year* | (23) | (284) | 2,957 | **2,650** |
| **31 December** | **20** | **124** | **21,613** | **21,757** |
| Individually assessed | 12 | 32 | 21,613 | **21,657** |
| Collectively assessed | 8 | 92 | - | **100** |
| | **20** | **124** | **21,613** | **21,757** |

* The credit for the year mainly relates to assets derecognised in the year (2021: Charge for the year mainly relates to changes to inputs and net exposure).

## 43. Risk management - Credit risk (continued)

### 43.5 Contingent liabilities and commitments (continued)

#### 43.5.1 Contingent liabilities (continued)

The credit quality of contingent liabilities as per the internal rating system of the Company is disclosed in the table below.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Corporate legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 111,875 | 8 | **111,883** | 121,750 | 1,223 | **122,973** |
| Rating 2 | 16,342 | - | **16,342** | 13,327 | 93 | **13,420** |
| Rating 3 | 48,934 | 388 | **49,322** | 45,371 | 670 | **46,041** |
| Rating 4 | 34,218 | 7,980 | **42,198** | 25,513 | 2,185 | **27,698** |
| Rating 5 | 76,807 | 5,764 | **82,571** | 42,183 | 31,791 | **73,974** |
| Rating 6 | 7,845 | 4,118 | **11,963** | 11,720 | 3,809 | **15,529** |
| Rating 7 | 31 | 4,507 | **4,538** | 1,410 | 432 | **1,842** |
| Unrated | 22,127 | 13,622 | **35,749** | 35,615 | 60,258 | **95,873** |
| New customers | 89,653 | 2 | **89,655** | 75,832 | - | **75,832** |
| | **407,832** | **36,389** | **444,221** | **372,721** | **100,461** | **473,182** |
| Total Stage 3 | | | **9,422** | | | **35,207** |
| | | | **453,643** | | | **508,389** |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **SME legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 30,526 | 38 | **30,564** | 30,241 | 78 | **30,319** |
| Rating 2 | 8,552 | 747 | **9,299** | 7,949 | 1,217 | **9,166** |
| Rating 3 | 867 | 489 | **1,356** | 1,592 | 223 | **1,815** |
| Rating 4 | 280 | 263 | **543** | 365 | 111 | **476** |
| Rating 5 | 58 | 94 | **152** | 42 | 6 | **48** |
| Rating 6 | 1 | 1 | **2** | 3 | - | **3** |
| Rating 7 | 552 | - | **552** | 554 | 32 | **586** |
| Unrated | 19,630 | 56,892 | **76,522** | - | 21,316 | **21,316** |
| New customers | 46,888 | 738 | **47,626** | 25,124 | - | **25,124** |
| | **107,354** | **59,262** | **166,616** | **65,870** | **22,983** | **88,853** |
| Total Stage 3 | | | **26,573** | | | **9,781** |
| | | | **193,189** | | | **98,634** |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Unrated | - | 14,975 | **14,975** | - | 12,880 | **12,880** |
| | **-** | **14,975** | **14,975** | **-** | **12,880** | **12,880** |
| Total Stage 3 | | | **587** | | | **680** |
| | | | **15,562** | | | **13,560** |

## 43. Risk management - Credit risk (continued)

### 43.5 Contingent liabilities and commitments (continued)

#### 43.5.2 Commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Exposure** | | | | |
| 1 January | 1,570,595 | 412,589 | 52,278 | **2,035,462** |
| Transfers to stage 1 | 159,869 | (159,518) | (351) | **-** |
| Transfers to stage 2 | (117,601) | 118,493 | (892) | **-** |
| Transfers to stage 3 | (276) | (1,205) | 1,481 | **-** |
| Net increase/(decrease) | 22,352 | (51,245) | (9,483) | **(38,376)** |
| **31 December** | **1,634,939** | **319,114** | **43,033** | **1,997,086** |

| 2021 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **Exposure** | | | | |
| 1 January | 1,224,083 | 775,192 | 79,031 | **2,078,306** |
| Transfers to stage 1 | 417,291 | (416,743) | (548) | **-** |
| Transfers to stage 2 | (52,799) | 52,799 | - | **-** |
| Transfers to stage 3 | (358) | (1,165) | 1,523 | **-** |
| Net (decrease)/increase | (17,622) | 2,506 | (27,728) | **(42,844)** |
| **31 December** | **1,570,595** | **412,589** | **52,278** | **2,035,462** |

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 19 | 169 | - | **188** |
| Transfers to stage 1 | 4 | (4) | - | **-** |
| Transfers to stage 2 | (18) | 18 | - | **-** |
| Charge/(credit) for the year* | 85 | (86) | - | **(1)** |
| **31 December** | **90** | **97** | **-** | **187** |
| Individually assessed | 68 | 60 | - | **128** |
| Collectively assessed | 22 | 37 | - | **59** |
| | **90** | **97** | **-** | **187** |

| 2021 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | **Total €000** |
|---|---|---|---|---|
| **ECL** | | | | |
| 1 January | 126 | 425 | - | **551** |
| Transfers to stage 1 | 9 | (9) | - | **-** |
| Transfers to stage 2 | (32) | 63 | (31) | **-** |
| (Credit)/charge for the year* | (84) | (310) | 31 | **(363)** |
| **31 December** | **19** | **169** | **-** | **188** |
| Individually assessed | 7 | 80 | - | **87** |
| Collectively assessed | 12 | 89 | - | **101** |
| | **19** | **169** | **-** | **188** |

## 43. Risk management - Credit risk (continued)

### 43.5 Contingent liabilities and commitments (continued)

#### 43.5.2 Commitments (continued)

*The charge/(credit) for the year mainly relates to changes to inputs.

The credit quality of commitments, as per the internal rating system of the Company is disclosed in the table below.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Corporate legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 289,574 | 13,911 | **303,485** | 330,278 | 8,371 | **338,649** |
| Rating 2 | 50,364 | 3,921 | **54,285** | 41,484 | 3,397 | **44,881** |
| Rating 3 | 83,187 | 5,579 | **88,766** | 128,429 | 10,627 | **139,056** |
| Rating 4 | 99,083 | 5,387 | **104,470** | 58,322 | 10,107 | **68,429** |
| Rating 5 | 68,953 | 8,220 | **77,173** | 58,708 | 82,198 | **140,906** |
| Rating 6 | 8,154 | 6,905 | **15,059** | 12,239 | 16,047 | **28,286** |
| Rating 7 | 1,492 | 10,390 | **11,882** | 154 | 1,627 | **1,781** |
| Unrated | 60,960 | 46,201 | **107,161** | 26,441 | 103,918 | **130,359** |
| New customers | 72,296 | 10,906 | **83,202** | 26,296 | 20,402 | **46,698** |
| | **734,063** | **111,420** | **845,483** | **682,351** | **256,694** | **939,045** |
| Total Stage 3 | | | **14,763** | | | **22,553** |
| | | | **860,246** | | | **961,598** |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **SME legal entities** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 189,826 | 75,681 | **265,507** | 234,443 | 22,597 | **257,040** |
| Rating 2 | 37,089 | 20,238 | **57,327** | 40,913 | 17,522 | **58,435** |
| Rating 3 | 9,437 | 5,941 | **15,378** | 12,254 | 3,988 | **16,242** |
| Rating 4 | 1,923 | 2,992 | **4,915** | 3,027 | 2,900 | **5,927** |
| Rating 5 | 1,322 | 2,155 | **3,477** | 2,270 | 1,748 | **4,018** |
| Rating 6 | 303 | 370 | **673** | 235 | 523 | **758** |
| Rating 7 | 177 | 136 | **313** | 77 | 262 | **339** |
| Unrated | 58,779 | 29,414 | **88,193** | - | 17,465 | **17,465** |
| New customers | 13,683 | 980 | **14,663** | 11,073 | 459 | **11,532** |
| | **312,539** | **137,907** | **450,446** | **304,292** | **67,464** | **371,756** |
| Total Stage 3 | | | **23,916** | | | **24,001** |
| | | | **474,362** | | | **395,757** |

## 43. Risk management - Credit risk (continued)

### 43.5 Contingent liabilities and commitments (continued)

#### 43.5.2 Commitments (continued)

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | **Total** | Stage 1 | Stage 2 | **Total** |
| **Retail individuals** | €000 | €000 | **€000** | €000 | €000 | **€000** |
| Rating 1 | 279,094 | 17,526 | **296,620** | 244,760 | 29,865 | **274,625** |
| Rating 2 | 124,039 | 8,630 | **132,669** | 115,852 | 10,877 | **126,729** |
| Rating 3 | 63,108 | 10,745 | **73,853** | 55,987 | 12,732 | **68,719** |
| Rating 4 | 32,345 | 8,307 | **40,652** | 30,358 | 7,642 | **38,000** |
| Rating 5 | 9,304 | 6,516 | **15,820** | 8,553 | 8,621 | **17,174** |
| Rating 6 | 3,464 | 5,395 | **8,859** | 4,095 | 6,756 | **10,851** |
| Rating 7 | 770 | 2,690 | **3,460** | 711 | 2,984 | **3,695** |
| Unrated | - | 7,437 | **7,437** | - | 7,926 | **7,926** |
| New customers | 76,213 | 2,541 | **78,754** | 123,636 | 1,028 | **124,664** |
| | **588,337** | **69,787** | **658,124** | **583,952** | **88,431** | **672,383** |
| Total Stage 3 | | | **4,354** | | | **5,724** |
| | | | **662,478** | | | **678,107** |

**43. Risk management - Credit risk** (continued)

**43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale**

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

| **2022** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|---|
| 1 January | 15,457 | 29,383 | 456,927 | 67,781 | **569,548** |
| Transfers to stage 1 | 9,737 | (9,560) | (176) | - | **1** |
| Transfers to stage 2 | (1,009) | 9,857 | (8,848) | - | **-** |
| Transfers to stage 3 | (106) | (833) | 939 | - | **-** |
| Impact on transfer between stages during the year* | (7,575) | (3,186) | 15,387 | (31) | **4,595** |
| Foreign exchange and other adjustments | 9 | (2) | 988 | - | **995** |
| Write offs | (798) | (682) | (145,434) | (22,774) | **(169,688)** |
| Interest (provided) not recognised in the income statement | - | - | 16,687 | 427 | **17,114** |
| New loans originated or purchased* | 3,877 | - | - | 35 | **3,912** |
| Loans derecognised or repaid (excluding write offs)* | (964) | (2,700) | (16,943) | (2,714) | **(23,321)** |
| Write offs* | 736 | 485 | 10,342 | 995 | **12,558** |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations* | 5,009 | 2,677 | 47,617 | 14,616 | **69,919** |
| Changes to contractual cash flows due to modifications not resulting in derecognition* | (2,085) | 2,226 | (3,818) | (391) | **(4,068)** |
| Disposal of Helix 3 and Sinope portfolios | - | (624) | (262,062) | (42,404) | **(305,090)** |
| **31 December** | **22,288** | **27,041** | **111,606** | **15,540** | **176,475** |
| Individually assessed | 9,066 | 13,401 | 54,990 | 10,664 | **88,121** |
| Collectively assessed | 13,222 | 13,640 | 56,616 | 4,876 | **88,354** |
| | **22,288** | **27,041** | **111,606** | **15,540** | **176,475** |

* Individual components of the 'Impairment net of reversals on loans and advances to customers' (Note 14).

The impairment loss for the year ended 31 December 2022 was driven mainly from additional net credit losses of €28 million recorded on NPEs as part of the Company's de-risking activities and additional ECL charge of €16 million following the new overlays introduced in 2022, as explained in Note 5.2.

**43. Risk management - Credit risk** (continued)

**43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale** (continued)

| **2021** | Stage 1<br>€000 | Stage 2<br>€000 | Stage 3<br>€000 | POCI<br>€000 | **Total**<br>**€000** |
|---|---|---|---|---|---|
| 1 January | 22,619 | 49,127 | 1,354,473 | 204,477 | **1,630,696** |
| Transfers to stage 1 | 18,228 | (17,818) | (410) | - | **-** |
| Transfers to stage 2 | (2,361) | 15,825 | (13,464) | - | **-** |
| Transfers to stage 3 | (430) | (1,462) | 1,892 | - | **-** |
| Impact on transfer between stages during the year* | (11,600) | (7,088) | 4,781 | (605) | **(14,512)** |
| Foreign exchange and other adjustments | - | - | 723 | - | **723** |
| Write offs | (518) | (843) | (246,048) | (40,657) | **(288,066)** |
| Interest (provided) not recognised in the income statement | - | - | 41,812 | 6,658 | **48,470** |
| New loans originated or purchased* | 4,152 | - | - | 233 | **4,385** |
| Loans derecognised or repaid (excluding write offs)* | (632) | (464) | (32,024) | (770) | **(33,890)** |
| Write offs* | 281 | 318 | 6,282 | (19) | **6,862** |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations* | (10,259) | 2,943 | 66,324 | 10,295 | **69,303** |
| Changes to contractual cash flows due to modifications not resulting in derecognition* | (826) | 1,647 | (1,889) | (2,262) | **(3,330)** |
| Disposal of Helix 2 portfolio | (3,197) | (12,802) | (725,525) | (109,569) | **(851,093)** |
| **31 December** | **15,457** | **29,383** | **456,927** | **67,781** | **569,548** |
| Individually assessed | 6,661 | 14,476 | 56,176 | 7,427 | **84,740** |
| Collectively assessed | 8,796 | 14,907 | 400,751 | 60,354 | **484,808** |
| | **15,457** | **29,383** | **456,927** | **67,781** | **569,548** |

*Individual components of the 'Impairment net of reversals on loans and advances to customers' (Note 14).

## 43. Risk management - Credit risk (continued)

### 43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The analysis of credit losses of loans and advances to customers, including the loans and advances to customers held for sale, by business line is presented in the table below:

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 13,997 | 12,096 | 28,770 | 1,498 | **56,361** |
| International corporate | 567 | 5 | 36 | 4 | **612** |
| SMEs | 2,444 | 3,009 | 212 | 214 | **5,879** |
| Retail | | | | | |
| - housing | 2,378 | 2,738 | 5,146 | 398 | **10,660** |
| - consumer, credit cards and other | 2,552 | 4,794 | 5,763 | 1,020 | **14,129** |
| Restructuring | | | | | |
| - corporate | 22 | 2,133 | 7,481 | 9,005 | **18,641** |
| - SMEs | 184 | 706 | 9,157 | 741 | **10,788** |
| - retail housing | 19 | 682 | 9,222 | 347 | **10,270** |
| - retail other | 29 | 536 | 7,309 | 513 | **8,387** |
| Recoveries | | | | | |
| - corporate | - | - | 7,917 | 387 | **8,304** |
| - SMEs | - | - | 11,096 | 288 | **11,384** |
| - retail housing | - | - | 11,937 | 651 | **12,588** |
| - retail other | - | - | 7,494 | 465 | **7,959** |
| International banking services | 73 | 332 | 65 | 5 | **475** |
| Wealth management | 23 | 10 | 1 | 4 | **38** |
| | **22,288** | **27,041** | **111,606** | **15,540** | **176,475** |

| 2021 (restated) | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| Corporate and Large corporate | 8,432 | 11,972 | 23,655 | 1,481 | **45,540** |
| International corporate | 903 | 1,390 | 7,871 | 3 | **10,167** |
| SMEs | 1,653 | 3,242 | 1,458 | 276 | **6,629** |
| Retail | | | | | |
| - housing | 1,615 | 2,868 | 7,045 | 317 | **11,845** |
| - consumer, credit cards and other | 2,674 | 4,434 | 8,223 | 1,002 | **16,333** |
| Restructuring | | | | | |
| - corporate | 40 | 1,397 | 5,015 | 2,292 | **8,744** |
| - SMEs | 79 | 1,139 | 13,970 | 884 | **16,072** |
| - retail housing | 3 | 708 | 20,005 | 775 | **21,491** |
| - retail other | 14 | 1,049 | 16,583 | 806 | **18,452** |
| Recoveries | | | | | |
| - corporate | - | - | 21,374 | 3,518 | **24,892** |
| - SMEs | - | - | 26,338 | 2,045 | **28,383** |
| - retail housing | - | - | 152,596 | 27,732 | **180,328** |
| - retail other | - | - | 152,691 | 26,643 | **179,334** |
| International banking services | 33 | 1,181 | 102 | 6 | **1,322** |
| Wealth management | 11 | 3 | 1 | 1 | **16** |
| | **15,457** | **29,383** | **456,927** | **67,781** | **569,548** |

**43. Risk management - Credit risk** (continued)

**43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale** (continued)

The movement of the ECL allowance for the loans and advances to customers in the Corporate and Large corporate, International corporate and Retail business lines in Cyprus (the country where the loans are managed), including ECL allowance for loans and advances to customers held for sale, is presented in the table below:

| **2022** | **Corporate and Large corporate €000** | **International corporate €000** | **Retail €000** |
|---|---|---|---|
| 1 January | 45,540 | 2,323 | 28,215 |
| Transfer in/(out of) the business line | 281 | (67) | (1,812) |
| Write offs | (14) | - | (1,866) |
| Interest (provided) not recognised in the income statement | 936 | 3 | 445 |
| New loans originated or purchased | 1,950 | 164 | 1,261 |
| Loans derecognised or repaid (excluding write offs) | (5,699) | (448) | (818) |
| Write offs | 9 | - | 1,294 |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations | 11,672 | (548) | 2,800 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | (673) | - | (203) |
| Impact on transfer between stages during the year | 2,359 | (815) | (4,527) |
| **31 December** | **56,361** | **612** | **24,789** |

| **2021 (restated)** | **Corporate and Large corporate €000** | **International corporate €000** | **Retail €000** |
|---|---|---|---|
| 1 January | 42,511 | 151 | 45,730 |
| Transfer in/(out of) the business line | (608) | 1,773 | (4,440) |
| Write offs | (1,929) | (182) | (1,704) |
| Interest (provided) not recognised in the income statement | 2,648 | - | 934 |
| New loans originated or purchased | 1,396 | 369 | 1,847 |
| Loans derecognised or repaid (excluding write offs) | (1,624) | - | (971) |
| Write offs | (7) | - | 449 |
| Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations | 209 | 213 | (6,779) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 10,580 | - | (1,097) |
| Impact on transfer between stages during the year | (7,636) | (1) | (5,754) |
| **31 December** | **45,540** | **2,323** | **28,215** |

Credit losses of loans and advances to customers as at 31 December 2021 include credit losses relating to loans and advances to customers classified as held for sale as presented in the table below:

| | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | POCI €000 | **Total €000** |
|---|---|---|---|---|---|
| **31 December 2021** | - | 710 | 262,475 | 42,003 | 305,188 |

During the year ended 31 December 2022 the total non-contractual write-offs recorded by the Company amounted to €134,767 thousand (2021: €234,378 thousand). The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2022 and that are still subject to enforcement activity is €972,621 thousand (2021: €970,568 thousand).

**43. Risk management - Credit risk** (continued)

**43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale** (continued)

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

For Stage 3 customers, the base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional favourable and adverse scenarios. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 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 held for sale the Company takes into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL.

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

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

*Sensitivity analysis*
The Company has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents more than 99% of the total loan portfolio of the Company (excluding the loans and advances to customers classified as held for sale) with reference date 31 December 2022 and 2021.

The Company has applied sensitivity analysis to the below parameters and the impact on the ECL, for both individually and collectively assessed ECL calculations, is presented in the table below:

| | **Increase/(decrease) on ECL for loans and advances to customers at amortised cost** | |
|---|---|---|
| | **2022** | 2021 |
| | **€000** | €000 |
| Increase the adverse weight by 5% and decrease the favourable weight by 5% | **1,999** | 3,610 |
| Decrease the adverse weight by 5% and increase the favourable weight by 5% | **(2,077)** | (3,626) |
| Increase the expected recovery period by 1 year | **4,955** | 8,000 |
| Decrease the expected recovery period by 1 year | **(4,344)** | (7,421) |
| Increase the collateral realisation haircut by 5% | **11,335** | 19,063 |
| Decrease the collateral realisation haircut by 5% | **(8,930)** | (16,906) |
| Increase in the PDs of stages 1 and 2 by 20% | **7,367** | 8,190 |
| Decrease in the PDs of stages 1 and 2 by 20% | **(6,964)** | (8,011) |

The increase/(decrease) on ECL, for loans and advances to customers at amortised cost, is further analysed, per stage, in the table below:

## 43. Risk management - Credit risk (continued)

### 43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

| 2022 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | Total €000 |
|---|---|---|---|---|
| Increase the adverse weight by 5% and decrease the favourable weight by 5% | 175 | 321 | 1,503 | **1,999** |
| Decrease the adverse weight by 5% and increase the favourable weight by 5% | (139) | (435) | (1,503) | **(2,077)** |
| Increase the expected recovery period by 1 year | 552 | 1,590 | 2,813 | **4,955** |
| Decrease the expected recovery period by 1 year | (495) | (1,374) | (2,475) | **(4,344)** |
| Increase the collateral realisation haircut by 5% | 1,036 | 2,747 | 7,552 | **11,335** |
| Decrease the collateral realisation haircut by 5% | (842) | (2,021) | (6,067) | **(8,930)** |
| Increase in the PDs of stages 1 and 2 by 20%* | 406 | 6,961 | - | **7,367** |
| Decrease in the PDs of stages 1 and 2 by 20%* | (2,217) | (4,747) | - | **(6,964)** |

| 2021 | Stage 1 €000 | Stage 2 €000 | Stage 3 €000 | Total €000 |
|---|---|---|---|---|
| Increase the adverse weight by 5% and decrease the favourable weight by 5% | 384 | 413 | 2,813 | **3,610** |
| Decrease the adverse weight by 5% and increase the favourable weight by 5% | (351) | (461) | (2,814) | **(3,626)** |
| Increase the expected recovery period by 1 year | 434 | 1,402 | 6,164 | **8,000** |
| Decrease the expected recovery period by 1 year | (401) | (1,323) | (5,697) | **(7,421)** |
| Increase the collateral realisation haircut by 5% | 1,215 | 3,742 | 14,106 | **19,063** |
| Decrease the collateral realisation haircut by 5% | (1,004) | (3,266) | (12,636) | **(16,906)** |
| Increase in the PDs of stages 1 and 2 by 20%* | 2,687 | 5,503 | - | **8,190** |
| Decrease in the PDs of stages 1 and 2 by 20%* | (2,882) | (5,129) | - | **(8,011)** |

*The impact on the ECL also includes the transfer between stages of the loans and advances to customers following the increase/decrease in the PD.

## 43. Risk management - Credit risk (continued)

### 43.6 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The sensitivity analysis performed on the collateral realisation haircut and its impact on the ECL by business line is presented in the table below:

| | **Increase the collateral realisation haircut by 5%** | **Decrease the collateral realisation haircut by 5%** | Increase the collateral realisation haircut by 5% | Decrease the collateral realisation haircut by 5% |
|---|---|---|---|---|
| | **2022** | **2022** | 2021 (restated) | 2021 (restated) |
| | **€000** | **€000** | €000 | €000 |
| Corporate and Large corporate | **2,322** | **(1,478)** | 2,605 | (2,284) |
| International corporate | **68** | **(30)** | 954 | (964) |
| SMEs | **487** | **(409)** | 724 | (627) |
| Retail | | | | |
| - housing | **1,260** | **(1,085)** | 1,838 | (1,545) |
| - consumer, credit cards and other | **527** | **(457)** | 718 | (653) |
| Restructuring | | | | |
| - corporate | **1,253** | **(1,333)** | 551 | (558) |
| - SMEs | **628** | **(633)** | 956 | (858) |
| - retail housing | **824** | **(738)** | 1,079 | (972) |
| - retail other | **324** | **(287)** | 458 | (420) |
| Recoveries | | | | |
| - corporate | **720** | **(665)** | 748 | (760) |
| - SMEs | **948** | **(819)** | 1,114 | (940) |
| - retail housing | **1,378** | **(690)** | 5,541 | (4,889) |
| - retail other | **540** | **(255)** | 1,503 | (1,233) |
| International banking services | **53** | **(49)** | 273 | (202) |
| Wealth management | **3** | **(2)** | 1 | (1) |
| | **11,335** | **(8,930)** | 19,063 | (16,906) |

### 43.7 Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2022 and 2021 by taking possession of collateral held as security, was as follows:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Residential property | **12,089** | 10,100 |
| Commercial and other property | **5,491** | 19,778 |
| | **17,580** | 29,878 |

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Company as at 31 December 2022, including any expenses capitalised during the year, amounted to €446,823 thousand (2021: €613,368 thousand).

The disposals of repossessed assets during 2022 (including those that were classified as held for sale prior to their disposal) amounted to €178,289 thousand (2021: €160,417 thousand).

## 43. Risk management - Credit risk (continued)

### 43.8 Currency concentration of loans and advances to customers

The following table presents the currency concentration of the Company's loans and advances at amortised cost.

| Gross loans at amortised cost | **2022** €000 | 2021 €000 |
|---|---|---|
| Euro | **9,454,234** | 9,292,920 |
| US Dollar | **334,663** | 368,113 |
| British Pound | **89,244** | 93,369 |
| Swiss Franc | **35,430** | 61,336 |
| Other currencies | **1,466** | 2,288 |
| | **9,915,037** | 9,818,026 |

*Loans and advances to customers classified as held for sale*
The following table presents the currency concentration of the Company's loans and advances at amortised cost classified as held for sale.

| Gross loans at amortised cost | 2021 €000 |
|---|---|
| Euro | 532,945 |
| US Dollar | 700 |
| British Pound | 230 |
| Swiss Franc | 18,184 |
| Other currencies | 3,485 |
| | 555,544 |

### 43.9 Modified loans and advances to customers

Modified loans and advances to customers are those loans where the original contractual terms of the loans

i. have been modified due to financial difficulties of the borrower and are considered as forborne/restructured (as explained in Note 43.10), and
ii. have been modified due to commercial renegotiations and such loans are considered as non-forborne

Customers classified as Stage 2 and Stage 3 as at 31 December 2021, that had facilities modified (in a prior or the current period), and are classified as Stage 1 as at 31 December 2022 amount to €281,391 thousand (2021: €540,712 thousand) and their corresponding ECL amount to €895 thousand (2021: €1,268 thousand).

Previously classified Stage 2 and Stage 3 customers (with a carrying amount as at 31 December 2021 of €34,788 thousand (2020: €109,881 thousand)) that had facilities modified during the year and are classified as Stage 1 at 31 December 2022 amount to €30,012 thousand (2021: €110,303 thousand) and their corresponding ECL amount to €51 thousand (2021: €233 thousand). Their related modification loss amounted to €177 thousand (2021: €433 thousand).

Stage 2 and Stage 3 loans that were forborne during the year amounted to €228,804 thousand (2021: €707,190 thousand). Their related modification loss amounted to €4,669 thousand (2021: €23,243 thousand).

Facilities that reverted to Stage 2 and Stage 3 having once cured during the year amount to €33,784 thousand (2021: €126,972 thousand) and their corresponding ECL amounts to €1,055 thousand (2021: €5,250 thousand) as at 31 December 2022.

## 43. Risk management - Credit risk (continued)

### 43.10 Forbearance/Restructuring

Forborne loans are those loans that have been modified because the borrower is considered unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Company decides to modify the terms and conditions of the contract to provide the borrower with the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group.

Forborne/restructured loans and advances are those facilities for which the Company has modified the repayment programme (e.g. provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest).

For an account to qualify for forbearance/restructuring it must meet certain criteria including the viability of the customer. The extent to which the Company reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be allowed in specific situations in response to legal or regulatory requirements.

Forbearance/restructuring activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Forbearance/restructuring options may be of a short or long-term nature or a combination thereof. The Company has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Company.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

i. Suspension of capital or capital and interest: granting to the borrower a grace period in the payment of capital (i.e. during this period only interest is paid) or capital and interest, for a specific period of time.
ii. Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
iii. Arrears and/or interest capitalisation: capitalisation of the arrears and of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.

Long-term restructuring solutions can include the following:

i. Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
ii. Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
iii. Sale of Assets: Part of the restructuring can be the agreement with the borrower for immediate or over time sale of assets (mainly real estate) to reduce borrowing.
iv. Modification of existing terms of previous decisions: In the context of the new sustainable settlement/restructuring solution, review any terms of previous decisions that may not be met.
v. Consolidation/refinancing of existing facilities: In cases where the borrower maintains several separate loans with different collaterals, these can be consolidated and a new repayment schedule can be set and the new loan can be secured with all existing collaterals.
vi. Hard Core Current Account Limit: In such cases a loan with a longer repayment may be offered to replace /reduce the current account limit.

**43. Risk management - Credit risk** (continued)

**43.10 Forbearance/Restructuring** (continued)

vii. Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured to a sustainable repayment program. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro rata (based on the actual repayment of the sustainable part) or restructured.

viii. Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.

ix. Liquidation Collateral: An agreement between the Company and a borrower for the voluntary sale of mortgaged assets, for partial or full repayment of the debt.

x. Currency Conversion: This solution is provided to match the credit facility currency and the borrower's income currency.

xi. Additional Financing: This solution can be granted, simultaneously with the restructuring of the existing credit facilities of the borrower, to cover any financing gap.

xii. Partial or total write off: This solution corresponds to the Company forfeiting the right to legally recover part or the whole of the amount of debt outstanding by the borrower.

xiii. Debt/equity swaps: debt restructuring that allows partial or full repayment of the debt in exchange of obtaining an equivalent amount of equity by the Company, with the remaining debt right sized to the cash flows of the borrower to allow repayment. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.

xiv. Debt/asset swaps: agreement between the Company and the borrower to voluntarily transfer the mortgaged asset or other immovable property to the Group, to partially or fully repay the debt. Any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.

The loans forborne continue to be classified as Stage 3 in the case they are performing forborne exposures under probation for which additional forbearance measures are extended, or performing forborne exposures, previously classified as NPEs that present more than 30 days past due within the probation period.

Forbearance modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements, are not regarded as sufficient to categorise the facility as credit impaired, as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

The forbearance characteristic contributes in two specific ways for the calculation of lifetime ECL for each individual facility. Specifically, it is taken into consideration in the scorecard development where if this characteristic is identified as statistically significant it affects negatively the rating of each facility. It also contributes in the construction through the cycle probability of default and cure curves, where when feasible a specific curve for the forborne products is calculated and assigned accordingly.

The below table presents the movement of the Company's forborne loans and advances to customers measured at amortised cost including those classified as held for sale. The forborne loans and advances to customers classified as held for sale as at 31 December 2022 amounts to nil (2021: €245,452 thousand).

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| 1 January | **1,455,521** | 1,965,088 |
| New loans and advances forborne in the year | **130,547** | 741,116 |
| Loans no longer classified as forborne and repayments | **(241,739)** | (484,039) |
| Write-off of forborne loans and advances | **(60,580)** | (106,010) |
| Interest accrued on forborne loans and advances | **57,795** | 72,321 |
| Foreign exchange adjustments | **(313)** | 493 |
| Derecognition of Helix 2 portfolio | **-** | (733,448) |
| Derecognition of Helix 3 and Sinope portfolios | **(235,245)** | - |
| **31 December** | **1,105,986** | 1,455,521 |

## 43. Risk management - Credit risk (continued)

### 43.10 Forbearance/Restructuring (continued)

The forborne loans classification is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. The criteria are set out in the EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

The below tables present the Company's forborne loans and advances to customers by staging, economic activity and business line classification excluding those classified as held for sale, as well as ECL allowances and tangible collateral held for such forborne loans.

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Stage 1 | **-** | 6,883 |
| Stage 2 | **857,356** | 828,849 |
| Stage 3 | **215,418** | 334,724 |
| POCI | **33,212** | 39,613 |
| | **1,105,986** | 1,210,069 |

*Fair value of collateral*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Stage 1 | **-** | 6,751 |
| Stage 2 | **818,138** | 782,843 |
| Stage 3 | **172,501** | 275,269 |
| POCI | **30,188** | 37,824 |
| | **1,020,827** | 1,102,687 |

The fair value of collateral presented above has been computed to the extent that the collateral mitigates credit risk.

*Credit risk concentration*

| | **2022** | 2021 |
|---|---|---|
| **By economic activity** | **€000** | €000 |
| Trade | **41,038** | 50,798 |
| Manufacturing | **17,080** | 15,258 |
| Hotels and catering | **282,460** | 259,534 |
| Construction | **245,695** | 164,430 |
| Real estate | **145,840** | 196,522 |
| Private individuals | **279,934** | 414,463 |
| Professional and other services | **75,823** | 86,369 |
| Other sectors | **18,116** | 22,695 |
| | **1,105,986** | 1,210,069 |

## 43. **Risk management - Credit risk** (continued)

### 43.10 **Forbearance/Restructuring** (continued)

| | **2022** | 2021 (restated) |
|---|---|---|
| **By business line** | **€000** | €000 |
| Corporate and Large corporate | **684,070** | 618,400 |
| International corporate | **-** | 4,904 |
| SMEs | **74,474** | 103,571 |
| Retail | | |
| - housing | **85,319** | 138,753 |
| - consumer, credit cards and other | **28,944** | 47,006 |
| Restructuring | | |
| - corporate | **47,840** | 21,836 |
| - SMEs | **21,002** | 35,890 |
| - retail housing | **53,316** | 66,608 |
| - retail other | **14,402** | 20,561 |
| Recoveries | | |
| - corporate | **6,279** | 19,796 |
| - SMEs | **15,635** | 14,382 |
| - retail housing | **49,240** | 81,318 |
| - retail other | **13,983** | 22,478 |
| International banking services | **11,482** | 14,159 |
| Wealth management | **-** | 407 |
| | **1,105,986** | 1,210,069 |

| **2022** | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | **€000** |
| Corporate and Large corporate | - | 628,104 | 50,376 | 5,590 | **684,070** |
| SMEs | - | 72,727 | 869 | 878 | **74,474** |
| Retail | | | | | |
| - housing | - | 62,312 | 20,502 | 2,505 | **85,319** |
| - consumer, credit cards and other | - | 20,207 | 7,653 | 1,084 | **28,944** |
| Restructuring | | | | | |
| - corporate | - | 31,637 | 6,060 | 10,143 | **47,840** |
| - SMEs | - | 7,240 | 11,918 | 1,844 | **21,002** |
| - retail housing | - | 19,912 | 30,649 | 2,755 | **53,316** |
| - retail other | - | 4,924 | 9,021 | 457 | **14,402** |
| Recoveries | | | | | |
| - corporate | - | - | 5,837 | 442 | **6,279** |
| - SMEs | - | - | 14,449 | 1,186 | **15,635** |
| - retail housing | - | - | 44,191 | 5,049 | **49,240** |
| - retail other | - | - | 12,705 | 1,278 | **13,983** |
| International banking services | - | 10,293 | 1,188 | 1 | **11,482** |
| | **-** | **857,356** | **215,418** | **33,212** | **1,105,986** |

**43. Risk management - Credit risk** (continued)

**43.10 Forbearance/Restructuring** (continued)

| **2021(restated)** | Stage 1 | Stage 2 | Stage 3 | POCI | **Total** |
|---|---|---|---|---|---|
| **By business line** | €000 | €000 | €000 | €000 | **€000** |
| Corporate and Large corporate | 6,461 | 559,311 | 52,628 | - | **618,400** |
| International corporate | - | - | 4,904 | - | **4,904** |
| SMEs | - | 96,654 | 2,945 | 3,972 | **103,571** |
| Retail | | | | | |
| - housing | 381 | 97,548 | 38,276 | 2,548 | **138,753** |
| - consumer, credit cards and other | 41 | 29,578 | 16,181 | 1,206 | **47,006** |
| Restructuring | | | | | |
| - corporate | - | 6,941 | 8,882 | 6,013 | **21,836** |
| - SMEs | - | 8,705 | 23,410 | 3,775 | **35,890** |
| - retail housing | - | 13,500 | 49,746 | 3,362 | **66,608** |
| - retail other | - | 5,047 | 15,088 | 426 | **20,561** |
| Recoveries | | | | | |
| - corporate | - | - | 17,503 | 2,293 | **19,796** |
| - SMEs | - | - | 12,402 | 1,980 | **14,382** |
| - retail housing | - | - | 70,951 | 10,367 | **81,318** |
| - retail other | - | - | 19,313 | 3,165 | **22,478** |
| International banking services | - | 11,565 | 2,495 | 99 | **14,159** |
| Wealth management | - | - | - | 407 | **407** |
| | **6,883** | **828,849** | **334,724** | **39,613** | **1,210,069** |

*ECL allowance*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Stage 1 | **-** | 8 |
| Stage 2 | **13,939** | 13,349 |
| Stage 3 | **68,374** | 120,345 |
| POCI | **11,259** | 10,218 |
| | **93,572** | 143,920 |

## 43. Risk management - Credit risk (continued)

### 43.11 Credit quality of the Company assets exposed to credit risk other than loans and advances to customers-analysis by rating agency designation

*Balances with central banks and loans and advances to banks*
Balances with central banks and loans and advances to banks are analysed by Moody's Investors Service rating as follows:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Aaa - Aa3 | **84,543** | 105,759 |
| A1 - A3 | **21,189** | 80,571 |
| Baa1 - Baa3 | **20,251** | 1,595 |
| Ba1 - Ba3 | **9,477,497** | 9,089,015 |
| B1 - B3 | **-** | 2,339 |
| Unrated | **290** | 28,926 |
| Other receivables from banks | **38,307** | 27,303 |
| | **9,642,077** | 9,335,508 |

All balances with central banks and loans and advances to banks are classified as Stage 1 (Note 17).

*Debt securities*
Investments in debt securities are analysed as follows:

| | **2022** | 2021 |
|---|---|---|
| *Moody's rating* | **€000** | €000 |
| Aaa - Aa3 | **1,105,439** | 830,940 |
| A1 - A3 | **396,985** | 253,072 |
| Baa1 - Baa3 | **87,566** | 77,330 |
| Ba1 - Ba3 | **883,931** | 732,906 |
| B1 - B3 | **14,243** | - |
| Unrated | **12,241** | 24,794 |
| | **2,500,405** | 1,919,042 |
| *Issued by:* | | |
| - Cyprus government | **829,625** | 732,906 |
| - Other governments | **425,460** | 311,108 |
| - Banks and other corporations | **1,245,320** | 875,028 |
| | **2,500,405** | 1,919,042 |
| *Classified as:* | | |
| Investments mandatorily measured at FVPL | **7,870** | 4,009 |
| Investments at FVOCI | **446,416** | 723,759 |
| Investments at amortised cost | **2,046,119** | 1,191,274 |
| | **2,500,405** | 1,919,042 |

## 43. Risk management - Credit risk (continued)

### 43.11 Credit quality of the Company assets exposed to credit risk other than loans and advances to customers-analysis by rating agency designation (continued)

| | FVOCI | Amortised cost |
|---|---|---|
| | Stage 1 | Stage 1 |
| **2022** | €000 | €000 |
| Aaa - Aa3 | 82,030 | 1,015,539 |
| A1 - A3 | 41,101 | 355,884 |
| Baa1 - Baa3 | - | 87,566 |
| Ba1 - Ba3 | 323,285 | 560,646 |
| B1 - B3 | - | 14,243 |
| Unrated | - | 12,241 |
| | **446,416** | **2,046,119** |

| | FVOCI | Amortised cost | | |
|---|---|---|---|---|
| | Stage 1 | Stage 1 | Stage 2 | Total |
| **2021** | €000 | €000 | €000 | €000 |
| Aaa - Aa3 | 231,587 | 595,845 | - | 595,845 |
| A1 - A3 | 55,873 | 197,199 | - | 197,199 |
| Baa1 - Baa3 | 30,348 | 46,983 | - | 46,983 |
| Ba1 - Ba3 | 405,952 | 278,491 | 48,463 | 326,954 |
| Unrated | - | 24,293 | - | 24,293 |
| | **723,760** | **1,142,811** | **48,463** | **1,191,274** |

## 44. Risk management - Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, foreign currency exchange rates, property and security prices. The Market and Liquidity Risk department is responsible for monitoring the risk on financial instruments resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk from counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

**Interest rate risk**

Interest rate risk refers to the current or prospective risk to Company's capital and earnings arising from adverse movements in interest rates that affect the Company's banking book positions.

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis where the assets, liabilities and off-balance sheet items, are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated. Interest rate risk is managed through a 1-Year Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the net interest income. There are different limits for the Euro and the US Dollar.

*Sensitivity analysis*
The table below sets out the impact on the Company's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the Euro and the US Dollar, being the main currencies using the assumption of the prevailing market risk policy for the current and the comparative year.

## 44. Risk management - Market risk (continued)

| | | Impact on Net Interest Income in €000 | |
|---|---|---|---|
| **Currency** | **Interest Rate Scenario** | **2022 (60 bps for Euro and 75 bps for US Dollar)** | **2021 (50 bps for Euro and 60 bps for US Dollar)** |
| All | Parallel up | 73,126 | 35,677 |
| All | Parallel down | (77,043) | (28,235) |
| All | Steepening | (56,569) | (19,944) |
| All | Flattening | 59,657 | 25,546 |
| All | Short up | 70,381 | 33,182 |
| All | Short down | (73,896) | (28,169) |
| | | | |
| Euro | Parallel up | 71,829 | 34,484 |
| Euro | Parallel down | (75,343) | (26,230) |
| Euro | Steepening | (55,812) | (17,866) |
| Euro | Flattening | 59,132 | 25,153 |
| Euro | Short up | 69,180 | 32,200 |
| Euro | Short down | (72,216) | (25,208) |
| | | | |
| US Dollar | Parallel up | 1,298 | 1,193 |
| US Dollar | Parallel down | (1,700) | (2,005) |
| US Dollar | Steepening | (757) | (2,078) |
| US Dollar | Flattening | 525 | 393 |
| US Dollar | Short up | 1,202 | 982 |
| US Dollar | Short down | (1,680) | (2,961) |

**44. Risk management - Market risk** (continued)

The above sensitivities incorporate assumptions on the pass-through change of time deposits.

The table below sets out the impact on the Company's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines.

| | | **Impact on Equity in €000** | |
|---|---|---|---|
| **Currency** | **Interest Rate Scenario** | **2022 (60 bps for Euro and 75 bps for US Dollar)** | **2021 (50 bps for Euro and 60 bps for US Dollar)** |
| All | Parallel up | 31,739 | (14,964) |
| All | Parallel down | (68,581) | 23,698 |
| All | Steepening | 11,884 | (9,300) |
| All | Flattening | 369 | 8,986 |
| All | Short up | 27,212 | 3,616 |
| All | Short down | (35,032) | 6,273 |
| | | | |
| Euro | Parallel up | 54,878 | (18,080) |
| Euro | Parallel down | (59,502) | 60,603 |
| Euro | Steepening | 23,018 | (7,836) |
| Euro | Flattening | 526 | 17,714 |
| Euro | Short up | 47,696 | 2,234 |
| Euro | Short down | (28,040) | 26,386 |
| | | | |
| US Dollar | Parallel up | 8,599 | 6,232 |
| US Dollar | Parallel down | (9,079) | (6,604) |
| US Dollar | Steepening | 750 | (1,464) |
| US Dollar | Flattening | 212 | 258 |
| US Dollar | Short up | 6,727 | 4,998 |
| US Dollar | Short down | (6,992) | (6,920) |

The aggregation of the impact on equity was performed as per the EBA guidelines by adding the negative and 50% of the positive impact of each scenario.

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at FVPL (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Company is also affected by changes in market interest rates. The impact on the Company's equity arises from changes in the fair value of fixed rate debt securities classified at FVOCI.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Company's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

| *Parallel change in interest rates ((increase)/decrease in net interest income)* | **Impact on profit/loss before tax** | **Impact on equity** |
|---|---|---|
| **2022** | **€000** | **€000** |
| +0.75% for US Dollar<br>+0.6% for Euro<br>+0.4% for British Pound | **(466)** | **(253)** |
| -0.75% for US Dollar<br>-0.6% for Euro<br>-0.4% for British Pound | **466** | **245** |

**44. Risk management - Market risk** (continued)

| *Parallel change in interest rates ((increase)/decrease in net interest income)* | **Impact on profit/loss before tax** | **Impact on equity** |
|---|---|---|
| | **€000** | **€000** |
| **2021** | | |
| +0.6% for US Dollar<br>+0.5% for Euro<br>+1.0% for British Pound | 1,219 | (568) |
| -0.6% for US Dollar<br>-0.5% for Euro<br>-1.0% for British Pound | (782) | 568 |

*Interest rate benchmark reform*
The LIBOR and the EURIBOR (collectively referred to as IBORs) are the subject of international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or cease to exist entirely or have other consequences that cannot be predicted.

Regarding LIBOR reform, regulators and industry working groups have identified alternative rates to transition to. On 5 March, 2021 the Financial Conduct Authority (FCA) has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative of the underlying market they intended to measure:

i. immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1 week and 2 month US dollar settings; and
ii. immediately after 30 June 2023, in the case of the remaining US dollar settings.

In October 2021, the European Commission designated a statutory replacement rate for certain settings of CHF LIBOR.

On 16 November 2021, the Financial Conduct Authority of the United Kingdom (UK FCA) confirmed that they would permit the temporary use of the synthetic GBP and JPY LIBOR in all legacy LIBOR contracts, other than cleared derivatives that have not been changed at or ahead of end 31 December 2021.

In September 2022, the FCA confirmed that the publication of 1-month and 6-month synthetic GBP LIBOR will be required until the end of March 2023, after which date these settings will permanently cease. On 23 November 2022, the FCA announced its intention (i.e. proposed, not confirmed yet) to continue to require LIBOR's administrator, IBA, to publish the 3-month synthetic GBP LIBOR setting until the end of March 2024, after which it will also permanently cease.

On 23 November 2022, the FCA announced that the three synthetic JPY LIBOR settings will cease at end 2022.

Also, under their new use restriction power they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. On 23 November 2022, the FCA announced its proposal (i.e. proposed, not confirmed yet) to require IBA to continue to publish the 1-month, 3-month and 6-month USD LIBOR settings on a synthetic basis until end September 2024.

*How the Group is managing the transition to alternative benchmark rates*
The Company established a project to manage the transition to alternative interest rate benchmarks with the Director of Treasury as the project owner and with oversight from a dedicated Benchmark Steering Committee. The main divisions involved in the project at the highest level are the Legal Department, Treasury, Risk Management, Finance, Information Technology (IT), Operations and the business lines. The Assets and Liabilities Committee (ALCO) monitors the project on a regular basis.

The Group's transition project also involved the drawing up of appropriate fallback provisions for LIBOR linked contracts and transition mechanisms in its floating rate assets and liabilities with maturities after 2021.

**44. Risk management - Market risk** (continued)

For the legacy non-cleared derivatives exposures, the Group has adhered to the International Swaps and Derivatives Association (ISDA) protocol which came into effect in January 2021, while for cleared derivatives, the Company will adopt the market wide standardised approach to be followed by the relevant clearing house.

The Company proactively engaged with its customer base and market counterparties for the amendment of substantially all impacted LIBOR contracts (other than the relevant contracts referencing to USD LIBOR and which will cease on 30 June 2023) by 31 December 2021 for transitioning to alternative rates. Those legacy credit facilities in CHF for which the contract was not amended by the first interest period commencing in 2022 ('tough legacy'), have been transitioned to the statutory rate provided by EU legislation. The Company has also made the necessary arrangements to transition its tough legacy GBP and JPY credit facilities to alternative rates by notifying its customer base accordingly and reserving the right to use a statutory rate provided by EU legislation in case such a rate is nominated in the future. Specifically, in anticipation that the European Commission might not designate an alternative rate for JPY and GBP Libor, the Company has informed its customers of its decision to transition tough legacy JPY and GBP LIBOR credit facilities to the same alternative rates, as if the customer has signed the relevant contract amendment. This would ensure that customers would not be treated differently compared to other similar customers on the same JPY and GBP LIBOR tenor who have signed their contract amendment. The Company has also engaged in client communication to inform customers and ensure a smooth transition of non USD LIBOR credit facilities to RFRs.

New RFR lending products have also been introduced and adopted across the Company's key currencies.

The Company's project for the transition to alternative interest rate benchmarks is now focused of the transition of USD LIBOR contracts ahead of the June 2023 deadline.

The Company has dedicated teams in place to support the transition and continuously assess, monitor and dynamically manage risks arising from the transition when required.

The Company has also been actively monitoring any market and regulatory developments published by regulatory bodies as well as by relevant Working Groups across various jurisdictions.

The Company will continue to assess, monitor and dynamically manage risks, and implement specific mitigating controls when required, progressing towards an orderly transition to alternative benchmarks.

The following table summarises the significant non-derivative exposures impacted by interest rate benchmark reform which have yet to transition as at 31 December 2022 and as at 31 December 2021 to the replacement benchmark rate at the respective date:

| **2022** | **USD LIBOR** | **Other LIBOR** | **Total** |
|---|---|---|---|
| **Non-derivative financial assets** | **€000** | **€000** | **€000** |
| Loans and advances to customers | 283,509 | 316 | **283,825** |
| Loans and advances to banks | 26,607 | 4,297 | **30,904** |
| **Total** | **310,116** | **4,613** | **314,729** |
| **Non-derivative financial liabilities** | | | |
| Deposits by banks | 7,416 | 248 | **7,664** |
| **Total** | **7,416** | **248** | **7,664** |

| **2021** | **GBP LIBOR** | **USD LIBOR** | **CHF LIBOR** | **Other LIBOR** | **Total** |
|---|---|---|---|---|---|
| **Non-derivative financial assets** | **€000** | **€000** | **€000** | **€000** | **€000** |
| Loans and advances to customers | 92,819 | 364,113 | 26,727 | 1,627 | **485,286** |
| Loans and advances to banks | 18,341 | 87,397 | 4,984 | 10,261 | **120,983** |
| **Total** | **111,160** | **451,510** | **31,711** | **11,888** | **606,269** |
| **Non-derivative financial liabilities** | | | | | |
| Deposits by banks | 113 | 7,658 | - | 503 | **8,274** |
| **Total** | **113** | **7,658** | **-** | **503** | **8,274** |

## 44. Risk management - Market risk (continued)

EURIBOR is in compliance with the EU Benchmarks Regulation and can continue to be used as a benchmark interest rate for existing and new contracts. The Company therefore, does not consider that Company's exposure to EURIBOR is affected by the BMR reform.

For derivatives in hedging relationships subject to IBOR reform refer to Note 19.

**Currency risk**

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange positions. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by Market and Liquidity Risk.

The Company does not maintain a currency trading book.

The table below sets out the Company's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

The impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the subsidiaries whose functional currency is not the Euro. The net assets of foreign operations are also revalued and affect equity, (by an approximately equal and opposite impact), but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

| | Change in foreign exchange rate | Impact on profit/loss after tax | Impact on equity |
|---|---|---|---|
| **2022** | **%** | **€000** | **€000** |
| US Dollar | **+10** | **2,534** | **-** |
| Russian Rouble | **+70** | **22,073** | **-** |
| Romanian Lei | **+10** | **3** | **(349)** |
| Swiss Franc | **+10** | **237** | **-** |
| British Pound | **+10** | **483** | **-** |
| Japanese Yen | **+10** | **6** | **-** |
| Other currencies | **+10** | **65** | **-** |
| | | | |
| US Dollar | **-10** | **(2,073)** | **-** |
| Russian Rouble | **-40** | **(2,703)** | **-** |
| Romanian Lei | **-10** | **(2)** | **285** |
| Swiss Franc | **-20** | **(356)** | **-** |
| British Pound | **-10** | **(396)** | **-** |
| Japanese Yen | **-10** | **(5)** | **-** |
| Other currencies | **-10** | **(53)** | **-** |

**44. Risk management - Market risk** (continued)

| 2021 | Change in foreign exchange rate % | Impact on profit/loss after tax €000 | Impact on equity €000 |
|---|---|---|---|
| US Dollar | +10 | 1,253 | - |
| Russian Rouble | +25 | 2,571 | 34,656 |
| Romanian Lei | +10 | - | 340 |
| Swiss Franc | +5 | 420 | - |
| British Pound | +10 | (70) | - |
| Japanese Yen | +10 | 67 | - |
| Other currencies | +10 | 138 | - |
| | | | |
| US Dollar | -10 | (1,025) | - |
| Russian Rouble | -25 | (1,543) | (20,793) |
| Romanian Lei | -10 | - | (278) |
| Swiss Franc | -5 | (380) | - |
| British Pound | -10 | 57 | - |
| Japanese Yen | -10 | (55) | - |
| Other currencies | -10 | (113) | - |

**Price risk**

*Equity securities price risk*
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Company as investments.

Investments in equities are outside the Company's risk appetite, but may be acquired in the context of delinquent loan workouts. The Company monitors the current portfolio mostly acquired by the Company as part of the acquisition of certain operations of Laiki Bank, or through delinquent loan workouts, with the objective to gradually liquidate all positions for which there is a market. Equity securities are disposed of by the Company as soon as practicable.

Changes in the prices of equity securities that are classified as investments at FVPL, affect the results of the Company, whereas changes in the value of equity securities classified as FVOCI affect directly the equity of the Company.

The table below shows the impact on the profit/loss before tax and on equity of the Company from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

| 2022 | Change in index % | Impact on profit/loss before tax €000 | Impact on equity €000 |
|---|---|---|---|
| Cyprus Stock Exchange | **+50** | **-** | **1,380** |
| Athens Exchange | **+34** | **286** | **-** |
| New York Exchange | **+23** | **-** | **-** |
| Other stock exchanges and unlisted | **+66** | **-** | **319** |
| Non-listed (Real Estate) | **+25** | **-** | **1,666** |
| | | | |
| Cyprus Stock Exchange | **-33** | **-** | **(911)** |
| Athens Exchange | **-45** | **(379)** | **-** |
| New York Exchange | **-28** | **-** | **-** |
| Other stock exchanges and unlisted | **-59** | **-** | **(285)** |
| Non-listed (Real Estate) | **-10** | **-** | **(666)** |

**44. Risk management - Market risk** (continued)

| 2021 | Change in index % | Impact on profit/loss before tax €000 | Impact on equity €000 |
|---|---|---|---|
| Cyprus Stock Exchange | +20 | - | 644 |
| Athens Exchange | +30 | 257 | - |
| Other stock exchanges and unlisted | +65 | - | 272 |
| Non-listed (Real Estate) | +25 | - | 1,666 |
| | | | |
| Cyprus Stock Exchange | -25 | - | (805) |
| Athens Exchange | -35 | (300) | - |
| Other stock exchanges and unlisted | -80 | - | (334) |
| Non-listed (Real Estate) | -10 | - | (666) |

*Debt securities price risk*
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Company. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes mainly for fixed rate securities. The Company invests a significant part of its liquid assets in highly rated securities. The average Moody's Investors Service rating of the debt securities portfolio of the Company as at 31 December 2022 was A2 (2021: A3). The average rating excluding the Cyprus Government bonds and non-rated transactions as at 31 December 2022 was Aa2 (2021: Aa2). Further information on ratings of debt securities is disclosed in Note 43.11.

Changes in the prices of debt securities classified as investments at FVPL, affect the profit or loss of the Company, whereas changes in the value of debt securities classified as FVOCI affect directly the equity of the Company.

The table below indicates how the profit/loss before tax and equity of the Company will be affected from reasonably possible changes in the price of the debt securities held, which is the maximum amount between the Monte Carlo CVAR (using a 97.5% Confidence Interval) and the Systematic Liquidity Risk according to the Internal Risk Based model, performed on a bond level.

| 2022 | Impact on profit/loss before tax €000 | Impact on equity €000 |
|---|---|---|
| **Up scenario:** | | |
| Aa3 and above rated bonds | **-** | **3,801** |
| A3 and above rated bonds | **-** | **3,259** |
| Baa1 and below rated bonds | **-** | **2,389** |
| Cyprus Government bonds | **-** | **34,045** |
| **Down scenario:** | | |
| Aa3 and above rated bonds | **-** | **(3,801)** |
| A3 and above rated bonds | **-** | **(3,259)** |
| Baa1 and below rated bonds | **-** | **(2,398)** |
| Cyprus Government bonds | **-** | **(34,045)** |

**44. Risk management - Market risk** (continued)

| 2021 | Impact on profit/loss before tax €000 | Impact on equity €000 |
|---|---|---|
| Up scenario: | | |
| Aa3 and above rated bonds | **-** | 3,737 |
| A3 and above rated bonds | - | 2,498 |
| Baa3 and above rated bonds | - | 4,137 |
| Cyprus Government bonds | - | 22,671 |
| **Down scenario:** | **-** | **-** |
| Aa3 and above rated bonds | - | (3,737) |
| A3 and above rated bonds | - | (2,498) |
| Baa3 and above rated bonds | - | (4,137) |
| Cyprus Government bonds | - | (22,671) |

*Other non-equity instruments price risk*
The table below shows the impact on the profit/loss before tax and on equity of the Company from a change in the price of other non-equity investments held, as a result of reasonably possible changes in the price index of the relevant instruments.

| | Change in index | Impact on profit/loss before tax | Impact on equity |
|---|---|---|---|
| **2022** | **%** | **€000** | **€000** |
| Other (non-equity instruments) | **+23** | **1,810** | **-** |
| Other (non-equity instruments) | **-28** | **(2,204)** | **-** |
| **2021** | | | |
| Other (non-equity instruments) | +20 | 702 | - |
| Other (non-equity instruments) | -25 | (877) | - |

**Property price risk**

A significant part of the Company's loan portfolio is secured by real estate the majority of which is located in Cyprus. Furthermore, the Company holds a substantial number of properties mainly arising from loan restructuring activities; the enforcement of loan collateral and debt for asset swaps. These properties are held by the Company primarily as stock of properties and some are held as investment properties.

Property risk is the risk that the Company's business and financial position will be affected by adverse changes in the demand for, and prices of, real estate, or by regulatory capital requirements relating to increased charges with respect to the stock of properties held.

**45. Risk management - Liquidity and funding risk**

**Liquidity Risk**

Liquidity risk is the risk that the Company is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Company may have to raise funding at high cost or sell assets at a discount to fully and promptly satisfy its obligations.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment and unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management has adopted the Liquidity Policy of managing assets taking liquidity into consideration and monitoring cash flows and liquidity on a regular basis. The Company has developed internal control processes and contingency plans for managing liquidity risk.

## 45. Risk management - Liquidity and funding risk (continued)

### Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite which defines the level of risk at which the Company should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews at frequent intervals the liquidity position of the Group.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity risk across the Company.

The Treasury Division is responsible for liquidity management at Company level ensuring compliance with internal policies and regulatory liquidity requirements and providing direction as to the actions to be taken regarding liquidity needs. Treasury assesses on a continuous basis, the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

Liquidity is also monitored by Market and Liquidity Risk department, to ensure compliance with both internal policies and limits, and with the limits set by the regulatory authorities. Market and Liquidity Risk department reports the liquidity position to ALCO at least monthly. It also provides the results of various stress tests to ALCO at least quarterly.

Liquidity is monitored and managed on an ongoing basis through:
(i) Risk appetite: established the Group's Risk Appetite Statement together with the appropriate limits for the management of all risks including liquidity risk.
(ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.
(iii) Liquidity limits: a number of internal and regulatory limits are monitored on a regular basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags and take action when the ratios deteriorate.
(iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Company. These are designed to immediately identify the emergence of increased liquidity risk so as to maximise the time available to execute appropriate mitigating actions.
(v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively identified and managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.
(vi) Recovery Plan: the Company has developed a Recovery Plan (RP), the key objectives of which are, among others, to set key Recovery and Early Warning Indicators and to set in advance a range of recovery options to enable the Company to be adequately prepared to respond to stressed conditions and restore the Company's liquidity position.

### Monitoring process

*Daily*
The daily monitoring of the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Company's activities. Market and Liquidity Risk department prepares a daily report analysing the internal liquidity buffer and comparing it to the previous day's buffer. Results are made available to members of the Risk and Treasury Divisions. In addition, Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Company.

Market and Liquidity Risk department also prepares daily stress testing for bank specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable the Company to survive a twelve-month stress period, including capacity to raise funding under all scenarios.

Moreover, an intraday liquidity stress test takes place to ensure that the Company maintains sufficient liquidity buffer in immediately accessible form, to enable it to meet the stressed intraday payments.

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), unpledged cash and nostro current accounts, as well as money market placements up to the stress horizon, available ECB credit line and market value net of haircut of unencumbered/available liquid bonds.

**45. Risk management - Liquidity and funding risk** (continued)

The designing of the stress tests follows guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA. In addition, it takes into account SREP recommendations as well as the Annual Risk Identification Process of the Company. The stress test assumptions are reviewed on an annual basis and approved by the Board through its Risk Committee. Whenever it is considered appropriate to amend the assumptions during the year, approval is requested from ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities, own issue covered bond, additional credit claims, interbank takings and cash collateral for derivatives and repos.

*Weekly*
Market and Liquidity Risk department prepares a report indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

*Monthly*
Market and Liquidity Risk department prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates, the percentage of International Banking Services deposits over total deposits and the percentage of instant access deposits are also presented. The liquidity mismatch in the form of the Maturity Ladder report (for both contractual and behavioural flows) is presented to ALCO and the resulting mismatch between assets and liabilities is compared to previous month's mismatch.

Market and Liquidity Risk also prepares a monthly liquidity report which is submitted to the ECB. The report includes information on deposits breakdown, cash flow information, survival period, LCR ratio, rollover of funding, funding gap (through the Maturity Ladder analysis), concentration of funding and collateral details. It concludes on the overall liquidity position of the Company and describes the measures implemented and to be implemented in the short-term to improve liquidity position if needed.

Market and Liquidity Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB on a monthly basis.

*Quarterly*
The results of the stress testing scenarios are reported to ALCO and Board Risk Committee quarterly as part of the quarterly Internal Liquidity Adequacy Assessment Process (ILAAP) review. Market and Liquidity Risk reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly.

*Annually*
The Company prepares on an annual basis its report on ILAAP. The ILAAP report provides a holistic view of the Group's liquidity adequacy under normal and stress conditions. Within ILAAP, the Company evaluates its liquidity risk in the context of established policies and processes for the identification, measurement, management and monitoring of liquidity risk as implemented by the institution.

As part of the Company's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan (LCP) for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this committee and a series of the possible actions that can be taken. The LCP is reviewed and tested at least annually.

**Liquidity ratios**

The Company LCR is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. The minimum requirement is 100%. The Company also calculates its NSFR as per Capital Requirements Regulation II (CRR II), with the limit set at 100%. The NSFR is the ratio of available stable funding to required stable funding. NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

**45. Risk management - Liquidity and funding risk** (continued)

**Funding risk**

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

**Main sources of funding**

As at 31 December 2022 the Company's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations. Wholesale funding is also becoming an important source of funding, following the refinancing of the Tier 2 for €300 million in April 2021 and the issuance of senior preferred debt of €300 million in June 2021.

With respect to TLTRO III operations the carrying value of the ECB funding as at 31 December 2022, (after the early repayment of €1 billion within December 2022), was €1,977 million (2021: €2,970 million).

As at 31 December 2022, the wholesale funding nominal amount was €820 million (2021: €856 million). This includes funding raised from the wholesale debt capital markets of €220 million AT1 issued in December 2018, €300 million new Tier 2 issued in April 2021 and €300 million senior preferred debt issued in June 2021. In January 2022, the Company redeemed the remaining €36 million outstanding of the Tier 2 issued in January 2017.

**Funding to subsidiaries**

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements, where applicable. Certain subsidiaries have a recommendation from their regulator to exercise caution and prudence regarding dividend distributions and to consider the impact of COVID-19 on their operating models, solvency, liquidity and financial position.

**Collateral requirements and other disclosures**

*Collateral requirements*
The carrying values of the Company's encumbered assets as at 31 December 2022 and 31 December 2021 are summarised below:

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Cash and other liquid assets | **73,557** | 102,463 |
| Investments | **284,343** | 1,260,158 |
| Loans and advances | **3,273,369** | 3,126,803 |
| | **3,631,269** | 4,489,424 |

Cash is mainly used to cover collateral required for derivatives, trade finance transactions and guarantees issued. It may also be used as part of the supplementary assets for the covered bond. The decrease in cash and other liquid assets presented as encumbered assets during the year ended 31 December 2022 was driven mainly by the decrease in cash encumbered for derivatives and for trade finance transactions.

As at 31 December 2022 and 2021, investments are mainly used as collateral for ECB funding or as supplementary assets for the covered bond. The decrease in the investments presented as encumbered assets during the year ended 31 December 2022 was driven by the removal of debt securities from the ECB collateral pool following the repayment of €1 billion TLTRO III funding in December 2022.

Loans and advances indicated as encumbered as at 31 December 2022 and 2021, are mainly used as collateral for funding from the ECB and the covered bond.

**45. Risk management - Liquidity and funding risk** (continued)

Loans and advances to customers include mortgage loans of a nominal amount of €1,007 million as at 31 December 2022 (2021: €1,007 million) in Cyprus, pledged as collateral for the covered bond issued by the Company in 2011 under its Covered Bond Programme. Furthermore, as at 31 December 2022 housing loans of a nominal amount of €2,287 million (2021: €2,091 million) in Cyprus, are pledged as collateral for funding from the ECB (Note 29).

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

*Other disclosures*
Deposits by banks include balances of €29,100 thousand as at 31 December 2022 (2021: €36,571 thousand) relating to borrowings from international financial and similar institutions for funding, aiming to facilitate access to finance and improve funding conditions for small or medium sized enterprises, active in Cyprus. The carrying value of the respective loans and advances granted to such enterprises serving this agreement amounts to €55,152 thousand as at 31 December 2022 (2021: €71,321 thousand).

**Analysis of financial assets and liabilities based on remaining contractual maturity**

The analysis of the Company's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

*Financial assets*
The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December until their contractual maturity date. Amounts placed as collateral (primarily for derivatives) are assigned to different time bands based on either their maturity, or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'Over five years' time band, unless classified as at FVPL, in which case they are included in the 'On demand and up to one month' time band.

The investments are classified in the relevant time band according to their contractual maturity.

*Financial liabilities*
All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Company expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Company has the discretion not to accept such early termination of deposits.

Debt securities in issue and subordinated liabilities are classified in the relevant time band according to the remaining contractual maturity.

## 45. Risk management - Liquidity and funding risk (continued)

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

*Derivative financial instruments*
The fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

*Commitments and contingent liabilities*
Amounts of commitments and contingent liabilities are included in the time band on the basis of their remaining contractual maturities.

In the case of undrawn facilities the Company has the right to cancel them upon relevant notice to the customers and are hence included in the 'On demand and up to one month' time band.

| 2022 | On demand and up to one month | Between one and three months | Between three months and one year | Between one and five years | Over five years | **Total** |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | **€000** |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 9,541,655 | 9,471 | 13,489 | 1,480 | 703 | **9,566,798** |
| Loans and advances to banks | 96,559 | 1,215 | 36 | 64,558 | 4,321 | **166,689** |
| Investments at FVPL | 6,814 | - | - | 1,898 | - | **8,712** |
| Loans and advances to customers | 907,783 | 219,362 | 641,082 | 3,161,840 | 5,022,854 | **9,952,921** |
| Balances with Group companies | 81,889 | 3,742 | 37,600 | 442,156 | 738 | **566,125** |
| Fair value of derivative assets | 507 | 160 | 238 | 10,811 | 36,437 | **48,153** |
| Investments not at FVPL | 42,553 | 70,637 | 318,427 | 1,787,097 | 284,003 | **2,502,717** |
| Other assets | 50,506 | 180 | 90,340 | 224,939 | 1,525 | **367,490** |
| | **10,728,266** | **304,767** | **1,101,212** | **5,694,779** | **5,350,581** | **23,179,605** |
| **Financial liabilities** | | | | | | |
| Deposits by banks | 138,027 | 20,320 | 33,128 | 215,446 | 120,811 | **527,732** |
| Funding from central banks | - | - | - | 2,028,300 | - | **2,028,300** |
| Customer deposits | 15,096,274 | 1,591,894 | 2,278,574 | 38,116 | - | **19,004,858** |
| Balances with Group companies | 77,488 | 14,704 | 5,321 | - | - | **97,513** |
| Debt securities in issue | - | - | 7,500 | 339,725 | - | **347,225** |
| Subordinated liabilities | - | - | 19,875 | 89,626 | 420,618 | **530,119** |
| Fair value of derivative liabilities | 10,274 | 255 | 9 | 4,412 | 1,219 | **16,169** |
| Lease liabilities | 579 | 959 | 4,031 | 13,712 | 3,138 | **22,419** |
| Other liabilities | 126,694 | 4,485 | 29,620 | 7,442 | 3,291 | **171,532** |
| | **15,449,336** | **1,632,617** | **2,378,058** | **2,736,779** | **549,077** | **22,745,867** |
| **Net financial (liabilities)/assets** | **(4,721,070)** | **(1,327,850)** | **(1,276,846)** | **2,958,000** | **4,801,504** | **433,738** |

## 45. Risk management - Liquidity and funding risk (continued)

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 9,186,060 | 17,274 | 23,827 | 1,977 | 1,579 | **9,230,717** |
| Loans and advances to banks | 154,117 | 4,123 | 1,882 | 69,213 | 18,358 | **247,693** |
| Investments at FVPL | 856 | - | - | - | 4,009 | **4,865** |
| Loans and advances to customers | 997,463 | 216,888 | 689,957 | 3,281,840 | 4,649,386 | **9,835,534** |
| Balances with Group companies | 67,949 | 5,367 | 32,454 | 558,299 | 3,656 | **667,725** |
| Fair value of derivative assets | 4,187 | 322 | 46 | 314 | 1,784 | **6,653** |
| Investments not at FVPL | 44,715 | 52,105 | 247,055 | 1,119,520 | 461,938 | **1,925,333** |
| Financial assets classified as held for sale | 227,195 | 8 | 451 | 1,606 | 21,096 | **250,356** |
| Other assets | 47,402 | 61 | 3,465 | 302,195 | 1,518 | **354,641** |
| | **10,729,944** | **296,148** | **999,137** | **5,334,964** | **5,163,324** | **22,523,517** |
| **Financial liabilities** | | | | | | |
| Deposits by banks | 54,669 | 16,568 | 26,426 | 193,160 | 170,744 | **461,567** |
| Funding from central banks | - | - | - | 2,931,762 | - | **2,931,762** |
| Customer deposits | 13,135,377 | 1,836,665 | 2,545,487 | 16,523 | - | **17,534,052** |
| Balances with Group companies | 47,375 | 15,236 | 5,318 | - | - | **67,929** |
| Debt securities in issue | - | - | 7,500 | 30,000 | 307,500 | **345,000** |
| Subordinated liabilities | 38,898 | - | 19,875 | 79,500 | 399,375 | **537,648** |
| Fair value of derivative liabilities | 2,249 | 836 | 1,746 | 11,925 | 15,696 | **32,452** |
| Lease liabilities | 513 | 1,026 | 4,607 | 16,006 | 6,622 | **28,774** |
| Other liabilities | 146,129 | 17,807 | 30,406 | 6,582 | 3,342 | **204,266** |
| | **13,425,210** | **1,888,138** | **2,641,365** | **3,285,458** | **903,279** | **22,143,450** |
| **Net financial (liabilities)/assets** | **(2,695,266)** | **(1,591,990)** | **(1,642,228)** | **2,049,506** | **4,260,045** | **380,067** |

| 2022 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Gross settled derivatives** | | | | | | |
| *Financial assets* | | | | | | |
| Contractual amounts receivable | 149,604 | 83,265 | 1,230 | - | - | **234,099** |
| Contractual amounts payable | (149,166) | (83,215) | (1,222) | - | - | **(233,603)** |
| | **438** | **50** | **8** | **-** | **-** | **496** |
| *Financial liabilities* | | | | | | |
| Contractual amounts receivable | 1,034,973 | 65,093 | 1,222 | - | - | **1,101,288** |
| Contractual amounts payable | (1,045,050) | (65,224) | (1,223) | - | - | **(1,111,497)** |
| | **(10,077)** | **(131)** | **(1)** | **-** | **-** | **(10,209)** |

## 45. Risk management - Liquidity and funding risk (continued)

| 2022 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Contingent liabilities and commitments** | | | | | | |
| *Contingent liabilities* | | | | | | |
| Acceptances and endorsements | 1,756 | 2,890 | 529 | - | - | **5,175** |
| Guarantees | 151,303 | 108,220 | 228,922 | 130,112 | 38,662 | **657,219** |
| *Commitments* | | | | | | |
| Documentary credits | 1,206 | 6,900 | 9,268 | - | 250 | **17,624** |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 1,979,462 | - | - | - | - | **1,979,462** |
| | **2,133,727** | **118,010** | **238,719** | **130,112** | **38,912** | **2,659,480** |

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Gross settled derivatives** | | | | | | |
| *Financial assets* | | | | | | |
| Contractual amounts receivable | 420,866 | 55,956 | 1,498 | - | - | **478,320** |
| Contractual amounts payable | (416,841) | (55,707) | (1,475) | - | - | **(474,023)** |
| | **4,025** | **249** | **23** | **-** | **-** | **4,297** |
| *Financial liabilities* | | | | | | |
| Contractual amounts receivable | 576,053 | 63,521 | 798 | - | - | **640,372** |
| Contractual amounts payable | (577,555) | (63,992) | (813) | - | - | **(642,360)** |
| | **(1,502)** | **(471)** | **(15)** | **-** | **-** | **(1,988)** |

| 2021 | On demand and up to one month €000 | Between one and three months €000 | Between three months and one year €000 | Between one and five years €000 | Over five years €000 | **Total €000** |
|---|---|---|---|---|---|---|
| **Contingent liabilities and commitments** | | | | | | |
| *Contingent liabilities* | | | | | | |
| Acceptances and endorsements | 1,599 | 2,306 | 720 | - | - | **4,625** |
| Guarantees | 140,408 | 94,065 | 247,402 | 107,768 | 26,315 | **615,958** |
| *Commitments* | | | | | | |
| Documentary credits | 2,007 | 4,024 | 3,127 | 946 | 1,160 | **11,264** |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 2,024,198 | - | - | - | - | **2,024,198** |
| | **2,168,212** | **100,395** | **251,249** | **108,714** | **27,475** | **2,656,045** |

## 46. Capital management

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

**46. Capital management** (continued)

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

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

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

The Group and the Company have complied with the minimum capital requirements (Pillar I and Pillar II).

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

Additional information on regulatory capital is disclosed in 'Risk and Capital Management Report' (unaudited), which is included in the Annual Financial Report.

**47. Related party transactions**

Related parties for the Company include Group companies, associates and joint ventures, key management personnel, members of the Board of Directors and their connected persons.

Connected persons for the purpose of this disclosure include spouses, minor/dependent children and companies in which directors/other key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Additional to members of the Board of Directors, related parties include entities providing key management personnel services to the Company.

## 47. Related party transactions (continued)

**Aggregate amounts outstanding at year end and additional transactions**

| | **2022 €000** | 2021 €000 |
|---|---|---|
| **Loans and advances as at 31 December** | | |
| Board of Directors | **105** | 148 |
| Key management personnel | **2,017** | 2,380 |
| Connected persons-Board of Directors | **86** | 91 |
| Connected persons-key management personnel | **216** | 73 |
| | **2,424** | 2,692 |
| **Deposits as at 31 December** | | |
| Board of Directors | **3,582** | 1,146 |
| Key management personnel | **1,898** | 1,541 |
| Connected persons - Board of Directors | **1,373** | 1,173 |
| Connected persons - Key management personnel | **1,544** | 1,081 |
| | **8,397** | 4,941 |
| | | |
| **Interest income for the year** | **62** | 394 |
| **Commission income for the year** | **6** | 1 |
| **Insurance premium income for the year** | **433** | 367 |
| **Subscriptions and insurance expenses for the year** | **294** | 377 |
| **Accruals and other liabilities as at 31 December with entity providing key management personnel services** | **-** | 1,199 |
| **Staff costs, consultancy, restructuring and other expenditure with entity providing key management personnel services** | **-** | 9,980 |

The above table does not include year end balances for members of the Board of Directors, key management personnel and their connected persons who resigned during the year, nor balances of customers that do not meet the definition of connected persons as at 31 December 2022.

As at 31 December 2022 there were 10 Directors in office (2021: 12) and 18 key management personnel in office (2021: 17).

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

During the year ended 31 December 2022 connected persons of key management personnel transacted with REMU for the purchase of a property amounting to €58 thousand (2021: nil). The transaction was made on normal business terms as for comparable transactions with third parties.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €120 thousand as at 31 December 2022 (2021: €133 thousand).

There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €1,134 thousand as at 31 December 2022 (2021: €573 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals, and assigning no value to other types of collaterals) at 31 December 2022 amounted to €1,093 thousand (2021: €774 thousand).

There were no other transactions during the years ended 31 December 2022 and 2021 with connected persons of the current members of the Board of Directors or with any members who resigned during the period/year.

## 47. Related party transactions (continued)

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions, including interest rates, with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel on the same terms as those applicable to the rest of the Company's employees and their connected persons on the same terms as those of customers.

**Fees and emoluments of members of the Board of Directors and key management personnel**

| | 2022 | 2021 |
|---|---|---|
| **Directors' emoluments** | **€000** | €000 |
| *Executives* | | |
| Salaries and other short-term benefits | **1,046** | 801 |
| Employer's contributions | **63** | 43 |
| Retirement benefit plan costs | **82** | 68 |
| Share-based benefits | **118** | - |
| Total directors' emoluments | **1,309** | 912 |
| **Key management personnel emoluments** | | |
| Salaries and other short-term benefits | **2,645** | 3,234 |
| Termination benefits | **200** | - |
| Employer's contributions | **307** | 274 |
| Retirement benefit plan costs | **198** | 181 |
| Share-based benefits | **204** | - |
| Total key management personnel emoluments | **3,554** | 3,689 |
| **Total** | **4,863** | 4,601 |

*Executive Directors*
The fees and emoluments of the Executive Directors are analysed as follows:

| | 2022 | 2021 |
|---|---|---|
| | **€000** | €000 |
| **Panicos Nicolaou (Chief Executive Officer)** | | |
| Salaries and other short-term benefits | **761** | 715 |
| Employer's contributions | **38** | 37 |
| Retirement benefit plan costs | **60** | 61 |
| Share-based benefits | **93** | - |
| | **952** | 813 |
| **Eliza Livadiotou (Executive Director Finance & legacy - appointed on 6 October 2021)** | | |
| Salaries and other short-term benefits | **285** | 86 |
| Employer's contributions | **25** | 6 |
| Retirement benefit plan costs | **22** | 7 |
| Share-based benefits | **25** | - |
| | **357** | 99 |
| **Total** | **1,309** | 912 |

The share-based benefits relate to the expense for the year for the share awards granted in December 2022 (Note 12).

Fees and benefits are included for the period that they serve as members of the Board of Directors. Other key management personnel emoluments are included for the period that they serve as key management personnel.

## 47. Related party transactions (continued)

**Fees and emoluments of members of the Board of Directors and key management personnel** (continued)

The retirement benefit plan costs relate to contributions paid for defined contribution plan.

*Non-executive Directors*
Non-executive director fees are expensed by Bank of Cyprus Holdings Public Limited Company and as a result no non-executive director fees are disclosed. However, these are recharged by the holding company back to the Company and the recharge cost is included within 'Other operating expenses'.

*Key management personnel*
The emoluments of key management personnel include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and the emoluments of other members of the Senior Management team (Extended EXCO) (prior to the change in the Group organisational structure, in 2022 the key management personnel included those members of the management team who reported directly to the Chief Executive Officer or to the Deputy Chief Executive Officer & Chief of Business). Mrs Eliza Livadiotou was appointed as member of the Board of Directors from 6 October 2021 and her emoluments from that date onwards are disclosed within the Executive Directors emoluments above.

Balances and transactions with Group Companies are disclosed in Note 22. Further, the subordinated liability with the holding Company is disclosed in Note 31.

## 48. Subsidiary companies

The main subsidiary companies and branches of the Company, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2022 are:

| Company | Country | Activities | Percentage holding (%) |
|---|---|---|---|
| EuroLife Ltd | Cyprus | Life insurance | 100 |
| General Insurance of Cyprus Ltd | Cyprus | Non-life insurance | 100 |
| JCC Payment Systems Ltd | Cyprus | Card processing transaction services | 75 |
| The Cyprus Investment and Securities Corporation Ltd (CISCO) | Cyprus | Investment banking and brokerage | 100 |
| BOC Asset Management Ltd | Cyprus | Management administration and safekeeping of UCITS Units | 100 |
| LCP Holdings and Investments Public Ltd | Cyprus | Investments in securities and participations in companies and schemes that are active in various business sectors and projects | 67 |
| Kermia Ltd | Cyprus | Property trading and development | 100 |
| Kermia Properties & Investments Ltd | Cyprus | Property trading and development | 100 |
| S.Z. Eliades Leisure Ltd | Cyprus | Land development and operation of a golf resort | 70 |
| Auction Yard Ltd | Cyprus | Auction company | 100 |
| BOC Secretarial Company Ltd | Cyprus | Secretarial services | 100 |
| Bank of Cyprus Public Company Ltd (branch of the Company) | Greece | Administration of guarantees and holding of real estate properties | n/a |
| BOC Asset Management Romania S.A. | Romania | Collection of the existing portfolio of receivables, including third party collections | 100 |
| MC Investment Assets Management LLC | Russia | Problem asset management company | 100 |
| Fortuna Astrum Ltd | Serbia | Problem asset management company | 100 |

**48. Subsidiary companies** (continued)

In February 2023 the Group proceeded with a restructuring of its investment banking and brokerage activities through the absorption by CISCO of BOC Asset Management Ltd's activities. BOC Asset Management Ltd was subsequently dissolved.

In addition to the above companies, as at 31 December 2022 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

**Cyprus:** Hamura Properties Ltd, Tolmeco Properties Ltd, Arlona Properties Ltd, Dilero Properties Ltd, Ensolo Properties Ltd, Pelika Properties Ltd, Cobhan Properties Ltd, Ramendi Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, EuroLife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Astromeria Properties Ltd, Regetona Properties Ltd, Camela Properties Ltd, Fareland Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bonsova Properties Ltd, Thermano Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Coeval Properties Ltd, Finevo Properties Ltd, Mazima Properties Ltd, Nigora Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Odolo Properties Ltd, Calandomo Properties Ltd, Molemo Properties Ltd, Nivamo Properties Ltd, Samilo Properties Ltd, Sendilo Properties Ltd, Baleland Properties Ltd, Alezia Properties Ltd, Zenoplus Properties Ltd, Alepar Properties Ltd, Enelo Properties Ltd, Monata Properties Ltd, Vertilia Properties Ltd, Amary Properties Ltd, Aparno Properties Ltd, Lomenia Properties Ltd, Midelox Properties Ltd, Montira Properties Ltd, Orilema Properties Ltd and Philiki Ltd.

**Romania:** Otherland Properties Dorobanti SRL, Green Hills Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2022 the Company had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd, Petrassimo Properties Ltd and Gosman Properties Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services.

At 31 December 2022 the Company had 100% shareholding in BOC Terra AIF V.C.I Plc which is a real estate alternative investment fund, currently inactive.

At 31 December 2022 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

**Cyprus:** Holstone Properties Ltd, Cramonco Properties Ltd, Carilo Properties Ltd, Gelimo Properties Ltd, Rifelo Properties Ltd, Avaleto Properties Ltd, Larizemo Properties Ltd and Olisto Properties Ltd.

In addition, the Company holds 100% of the following intermediate holding companies:

**Cyprus:** Otherland Properties Ltd, Battersee Properties Ltd, Bonayia Properties Ltd, Janoland Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Zunimar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafield Properties Ltd and Hydrobius Ltd.

**48. Subsidiary companies** (continued)

The Company also holds 100% of the following companies which are inactive:

**Cyprus:** Laiki Bank (Nominees) Ltd, Paneuropean Ltd, Nelcon Transport Co. Ltd, Iperi Properties Ltd, CYCMC IV Ltd, Prodino Properties Ltd and Thryan Properties Ltd.

**Greece:** Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method. All companies listed above have share capital consisting of ordinary shares.

**Acquisitions of subsidiaries**

During the years ended 31 December 2022 and 2021 there were no acquisitions of subsidiaries.

**Dissolution and disposal of subsidiaries**

Renalandia Properties Ltd, Crolandia Properties Ltd, Elosis Properties Ltd, Pariza Properties Ltd, Prosilia Properties Ltd, Otoba Properties Ltd, Dolapo Properties Ltd, Nivoco Properties Ltd, Polkima Properties Ltd, Fledgego Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Imperial Life Assurances Ltd, Philiki Management Services Ltd, Selilar Properties Ltd, Tantora Properties Ltd were dissolved during the year ended 31 December 2022. Vieman Ltd, Edilia Properties Ltd, Limoro Properties Ltd, Stevolo Properties Ltd, Yossi Properties Ltd, Jalimo Properties Ltd, Nesia Properties Ltd, Arcandello Properties Ltd, Meriaco Properties Ltd, Flymoon Properties Ltd, CYCMC II Ltd, Comenal Properties Ltd, Innerwick Properties Ltd, Palmco Properties Ltd, Paradexia Properties Ltd, Noleta Properties Ltd, Garmozy Properties Ltd, Valioco Properties Ltd, Dentorio Properties Ltd and Cimonia Properties Ltd were disposed of during the year ended 31 December 2022.

As at 31 December 2022, the following subsidiaries were in the process of dissolution or in the process of being struck off: Fantasio Properties Ltd, Demoro Properties Ltd, Bramwell Properties Ltd, Blindingqueen Properties Ltd, Fairford Properties Ltd, Salecom Ltd, Sylvesta Properties Ltd, Cyprialife Ltd, Battersee Real Estate SRL, Romaland Properties Ltd, Trecoda Properties Ltd, Weinco Properties Ltd, Aktilo Properties Ltd, Stormino Properties Ltd, Tavoni Properties Ltd, Ameleto Properties Ltd, Birkdale Properties Ltd, Folimo Properties Ltd, Steparco Ltd, Thames Properties Ltd and Finerose Properties Ltd.

During the year ended 31 December 2022, the Company disposed of its 100% shareholding in Yossi Properties Ltd and recorded a gain on disposal of €781 thousand in the income statement for the year ended 31 December 2022 (Note 11).

During the year ended 31 December 2021, the Company disposed of its 100% shareholding in Global Balanced Fund of Funds Salamis Variable Capital Investment Company Plc and recorded a loss on disposal of €203 thousand in the income statement for the year ended 31 December 2021 (Note 11).

*Carrying value of investments in subsidiaries*

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| 1 January | **91,218** | 97,609 |
| Contribution/Transfer from Balances with Group Companies (net) | **76,382** | 4,638 |
| Disposals/dissolution of subsidiaries | **(3,418)** | (6,026) |
| Impairment of investments in subsidiaries (Note 14) | **(2,632)** | (5,003) |
| **31 December** | **161,550** | 91,218 |

**49. Events after the reporting period**

No significant non-adjusting events have taken place since 31 December 2022. With respect to the recent developments in financial markets reference is made in Note 4.

# *Independent Auditor's Report*

**To the Members of Bank of Cyprus Public Company Limited**

## *Report on the Audit of the Financial Statements*

### *Our opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of parent company Bank of Cyprus Public Company Limited (the "Company") as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

**What we have audited**

We have audited the financial statements which are presented in pages 317 to 463 and comprise:

- the balance sheet as at 31 December 2022;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We remained independent of the Company throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

**Our audit approach**

***Overview***
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

| | |
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| ***Materiality*** | • Overall materiality: €16.4 million, which represents approximately 0.9% of the Company's net assets as presented on the balance sheet by line item 'Total Equity". |
| ***Key audit matters*** | We have identified the following key audit matters:<br>• Impairment of loans and advances to customers.<br>• Litigation provisions and regulatory and other claims.<br>• Valuation of stock of properties.<br>• Privileged user access. |

***Materiality***
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall materiality*** | €16.4 million. |
| ***How we determined it*** | Based on approximately 0.9% of the Company's net assets as presented on the balance sheet by line item 'Total Equity". |
| ***Rationale for the materiality benchmark applied*** | We chose net assets as the benchmark, because in our view, it is reflective of the Company's Common Equity Tier 1 ("CET1") capital position, which is the benchmark against which the performance of the Company is most commonly measured by the users of the financial statements. We chose 0.9%, which in our experience is an acceptable quantitative threshold for this materiality benchmark. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €800 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Impairment of loans and advances to customers***<br><br>Refer to Note 5.2, "Calculation of expected credit losses" within Note 5 "Significant and other judgements, estimates and assumptions, Note 21, "Loans and advances to customers" and Note 43, "Risk management - credit risk".<br><br>The Company has developed complex models to calculate expected credit losses ("ECL") on its loans and advances to customers. Impairment provisions are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that are individually significant or which meet specific criteria determined by management.<br><br>We determined this to be a key audit matter due to the significant judgement exercised by management and the complexity in making the estimate including: | We understood and evaluated the overall control framework and tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL. We tested the completeness and accuracy of data inputs to the ECL model on a sample basis.<br><br>We read and considered the minutes of the Joint Audit & Risk committee meetings where key inputs, assumptions, adjustments and outcomes were discussed and approved by the Joint Audit & Risk committee.<br><br>We assessed the appropriateness of the key assumptions used in the methodologies and models developed by the Company and their compliance with the requirements of IFRS 9. |

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| • The interpretations and assumptions required to build the models, including the segmentation employed;<br><br>• The allocation of loans and advances to customers within Stages 1, 2 or 3 including consideration of relevant overlays, where applicable;<br><br>• Identifying 'Significant Increase in Credit Risk'; and<br><br>• The inputs, assumptions and probability weights assigned to multiple economic scenarios as used by the Company. | We assessed the triggers identified by management to determine the appropriate staging of loans within Stages 1, 2 or 3 and tested, on a sample basis, the allocation of loans and advances to customers to Stages 1, 2 or 3 with reference to those triggers. As part of this, we considered the impact of staging overlays, where applicable.<br><br>We tested, with the assistance of PwC credit risk experts, the assumptions, inputs and formulas used in the calculation of collective ECL. This included considering the appropriateness of model design and challenging the assumptions used (e.g., Exposure at Default, Loss Given Default and Probability of Default), and the appropriateness of the segmentation employed. We built an ECL calculator model which mathematically checked the calculation of collective ECL.<br><br>We evaluated the Company's individual assessments for a sample of material Stage 3 exposures for compliance with the Company's policies, developments during 2022 and compliance with IFRS 9 requirements; significant data inputs were tested with reference to appropriate supporting documentation, such as collateral valuations and Land Registry records.<br><br>We compared, with the assistance of PwC credit risk experts, the forward-looking macroeconomic assumptions used in the base, favourable and adverse scenarios to publicly available information. We also assessed the reasonableness of the adverse and favourable assumptions together with the scenario weightings applied by management.<br><br>We evaluated the appropriateness of the Company's disclosures particularly in relation to significant judgements and estimates.<br><br>We concluded that the methodologies and judgements used by management in determining the ECL charge and ECL provisions recognised were reasonable and the disclosures made in relation to these matters in the financial statements were appropriate. |

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| ***Litigation provisions and regulatory and other claims***<br><br>Refer to Note 5.4 "Provisions for pending litigation, claims, regulatory and other matters" within Note 5 "Significant and other judgements, estimates and assumptions" and Note 37 "Pending litigation, claims, regulatory and other matters", to the financial statements.<br><br>The Company is subject to various legal claims, investigations and other proceedings. Provisions for pending litigation, claims, regulatory and other matters amounted to €121 million as at 31 December 2022.<br><br>Management together with the Company's compliance and legal departments and where necessary, the risk management department, review all existing and potential legal cases, prepare an assessment of potential outcomes for each individual case and assess the probability of economic outflow from the Company.<br><br>We have determined this to be a key audit matter as the recognition and measurement of provisions in respect of pending litigation, claims, regulatory and other matters requires a significant level of judgement by management. The judgements relate to the probability of obligating events requiring an outflow of resources to settle the obligation and the estimation of the extent of any related economic outflow. | We obtained an understanding of and evaluated the design of controls relevant to the recognition and measurement of litigation provisions and regulatory and other claims. We tested the operating effectiveness of controls we wished to rely on.<br><br>We tested a risk based sample of management's assessment of individual cases, including whether an economic outflow was assessed as probable. We assessed management's proposed provisions against information contained in case files and information obtained from external legal advisors. Where deemed necessary, we confirmed case facts and judgements directly with external legal advisors.<br><br>For a sample of cases where economic outflow was assessed as probable by management, and therefore a provision recorded, we recalculated the provision and performed sensitivity analysis on key assumptions used by management.<br><br>We understood the basis of management's collective provisions, in circumstances where these are applied, assessed the key assumptions used by reference to past experience and recalculated provisions booked.<br><br>We inspected the minutes of meetings of the board of directors and certain of its committees for evidence of any unidentified legal cases or relevant developments in current cases, including the minutes of the Settlement of Legal Cases Committee.<br><br>We inspected regulatory correspondence and further inquired with the compliance department about known existing circumstances of possible non-compliance with any regulatory requirements.<br><br>We evaluated whether the disclosures made addressed significant uncertainties and assessed their adequacy against the relevant accounting standards for both provisions and contingencies as at 31 December 2022.<br><br>Based on evidence obtained, while noting the inherent uncertainty in such matters, we concluded that the recorded provisions for pending litigation, claims, regulatory and other matters were reasonable and the disclosures made in relation to these matters in the financial statements were appropriate. |

| | |
|---|---|
| ***Valuation of stock of properties*** | |
| Refer to Note 5.3, "Stock of property - estimation of net realisable value" within Note 5 "Significant and other judgements, estimates and assumptions" and Note 26 "Stock of properties".<br><br>The Company has acquired a significant number of properties as a result of restructuring agreements with customers. These properties are accounted for as stock of property at the lower of their cost or net realisable value in accordance with IAS 2.<br><br>Valuations obtained from external valuers and the holding periods for assets are key inputs to determine the appropriate carrying value.<br><br>We have determined this to be a key audit matter in light of the large volume of properties held, the carrying value of these properties of €442 million at 31 December 2022, and the uncertainty around market conditions when estimating the carrying amount. | We understood and evaluated the design of the overall control framework relevant to repossessed properties and tested the operating effectiveness of key controls around their valuation.<br><br>We focused on the key inputs and assumptions underlying the valuation of the properties.<br><br>We evaluated the competence, capability and objectivity of management's external experts (property valuers), where relevant.<br><br>For a sample of external valuation reports, we assessed the methodology and assumptions used with the assistance of PwC valuation experts.<br><br>We tested the accuracy of the application by management of illiquidity discounts for a sample of properties held at year end.<br><br>For a sample of properties acquired during the year, we tested "cost" by reference to signed "debt-for-asset" agreements entered into with borrowers, and we tested the "net realisable value" at year-end by reference to external valuation reports.<br><br>We performed look-back procedures by comparing the price achieved for disposals during 2022 to the carrying values for those assets at 31 December 2021.<br><br>We evaluated whether the disclosures address significant judgements and estimates and assessed their adequacy against the relevant accounting standards.<br><br>We concluded that the judgements and estimates used by management in determining the carrying amount of stock of properties were reasonable and the disclosures made in relation to these matters in the financial statements were appropriate. |

***Privileged user access***

The Company's financial reporting is heavily reliant on IT systems which have been in place for a number of years and which are inherently complex, thereby creating an elevated risk to financial reporting.

The Company relies on privileged user access controls which are critical to ensuring that changes to applications and underlying data are made in an appropriate manner and to mitigate the risk of potential fraud or error.

We determined privileged user access to be a key audit matter as our audit approach relies on IT dependent controls and data and we performed extensive procedures due to the nature of the legacy systems in place.

With the assistance of PwC IT audit specialists, we obtained an understanding of the Company's IT environment and evaluated and tested the design and operating effectiveness of those IT General Controls (ITGCs) on IT systems that support financial reporting.

Where deficiencies in privileged user access controls were identified, we sought to identify and test other compensating controls. Where compensating controls or other mitigating factors and circumstances were not identified, we performed additional audit procedures in respect of user access rights. Specifically, we:

- Extracted user access listings directly from the production environment of relevant IT applications, along with their supporting IT infrastructure to validate the completeness of access rights within the Company's user access tool that supports the management of user access, for the provision, deprovision, and recertification of privileged access;
- Extracted the list of privileged users on the Company's data warehouse and considered the appropriateness of access during 2022;
- Extracted the list of developers from the production IT systems and release tools for those applications where system functionality is managed in-house and considered the appropriateness of developer access; and
- Considered the authentication controls of applications and supporting IT infrastructure to assess compliance with the Company's password policy requirements.

After evaluating the results of these additional audit procedures, where necessary, our team performed further audit procedures such that we concluded that any residual audit risk was reduced to an acceptable level.

## *Reporting on other information*

The Board of Directors is responsible for the other information. The other information comprises the information included in the Forward Looking Statements and Notes, Management Report, Risk and Capital Management Report, ESG Disclosures and the Alternative Performance Measures Disclosures, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the Board of Directors and those charged with governance for the Financial Statements*

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

## *Report on Other Legal and Regulatory Requirements*

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

### ***Appointment of the Auditor and Period of Engagement***

We were first appointed as auditors of the Company on 2 April 2019 by the shareholder of the Company through an extraordinary general meeting for the audit of the financial statements for the year ended 31 December 2019. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

### ***Consistency of the Additional Report to the Audit Committee***

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 31 March 2023 in accordance with Article 11 of the EU Regulation 537/2014.

***Provision of Non-audit Services***

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and which have not been disclosed in the financial statements or the management report.

***Other Legal Requirements***

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.

- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

## *Other Matter*

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2022.

The engagement partner on the audit resulting in this independent auditor's report is George C. Kazamias.

George C. Kazamias

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

PwC Central, 43 Demostheni Severi Avenue
CY-1080 Nicosia Cyprus

31 March 2023

# Alternative Performance Measures Disclosures 2022

## DEFINITIONS

| | |
|---|---|
| Allowance for expected credit losses on loans | Allowance for expected credit losses on loans comprises: (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers classified as non-current assets held for sale, where applicable), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers (including residual fair value adjustment on initial recognition of loans and advances to customers held for sale, where applicable), (iii) allowance for expected credit losses on off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL. |
| Cost to income ratio | Cost to income ratio is calculated as total expenses on an underlying basis (as defined below) divided by total income as per the underlying basis (as defined below). |
| Digitally engaged customers ratio | This is the ratio of digitally engaged individual customers to the total number of individual customers. Digitally engaged customers are the individuals who use the digital channels of BOC PCL (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard. |
| Gross loans | Gross Loans comprise: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale, where applicable) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment.<br><br>The residual fair value adjustment on initial recognition relates mainly to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired at acquisition). |
| Interest earning assets | Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including net loans and advances to customers classified as non-current assets held for sale, where applicable) (as defined below), plus deferred consideration receivable (‘DPP’), plus investments (excluding equities, mutual funds and other non-interest bearing investments). |
| Legacy exposures | Legacy exposure are exposures relating to<br>(i) Restructuring and Recoveries Division (RRD),<br>(ii) Real Estate Management Unit (REMU), and<br>(iii) Non-core overseas exposures. |
| Leverage ratio | The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet. |
| Loan credit losses | Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL, for the year. |

| | |
|---|---|
| Loan credit losses charge (cost of risk) | Loan credit losses charge (cost of risk) (year to date) is calculated as the loan credit losses (as defined) (annualised based on year to date days) divided by the average gross loans (as defined). The average gross loans are calculated as the average of the opening balance and the closing balance for the period. |
| 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 (per the underlying basis) (annualised based on year to date days) divided by the quarterly average interest earning assets (as defined). Quarterly average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable. |
| Net loans and advances to customers | Net loans and advances to customers comprise gross loans (as defined) net of allowance for expected credit losses on loans (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures disclosed on the balance sheet within other liabilities). |
| Net loans to deposits ratio | Net loans to deposits ratio is calculated as the gross loans (as defined) net of allowance for expected credit losses on loans (as defined), divided by customer deposits. |
| Net performing loan book | Net performing loan book is the total net loans and advances to customers (as defined) excluding legacy exposures (as defined). |
| New lending | New lending includes the disbursed amounts of the new and existing non-revolving facilities (excluding forborne or re-negotiated accounts) as well as the average year to date change (if positive) of the current accounts and overdraft facilities between the balance at the beginning of the period and the end of the period. Recoveries are excluded from this calculation since their overdraft movement relates mostly to accrued interest and not to new lending. |
| Non-performing exposures (NPEs) | As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:<br>(i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.<br>(ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, diminished financial obligation and obligor bankruptcy.<br>(iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due.<br>(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.<br>(v) Performing forborne exposures previously classified as NPES that present more than 30 days past due within the probation period.<br><br>From 1 January 2021 two regulatory guidelines came into force that affect NPE classification and Days-Past-Due calculation. More specifically, these are the RTS on the Materiality Threshold of Credit Obligations Past-Due (EBA/RTS/2016/06), and the Guideline on the Application of the Definition of Default under article 178 (EBA/GL/2016/07). |

| | |
|---|---|
| | The Days-Past-Due (DPD) counter begins counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than as of the first day of presenting any amount of arrears or excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality threshold. Payments towards the exposure that do not reduce the arrears/excesses below the materiality threshold, will not impact the counter.<br><br>For retail debtors, when a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on-balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing.<br><br>For non-retail debtors, when an exposure fulfils the NPE criteria set out above, then the total customer exposure is classified as non-performing.<br><br>Material arrears/excesses are defined as follows:<br>- Retail exposures: Total arrears/excess amount greater than €100<br>- Exposures other than retail: Total arrears/excess amount greater than €500 and the amount in arrears/excess is at least 1% of the customer's total exposure.<br><br>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 Income Statement on the underlying basis' relate to: (i) Advisory and other restructuring costs – organic, (ii) Provisions/net loss relating to NPE sales, (iii) Restructuring and other costs relating to NPE sales, and (iv) Restructuring costs – Voluntary Staff Exit Plan (VEP). |
| NPE coverage ratio | The NPE coverage ratio is calculated as the allowance for expected credit losses on loans (as defined) over NPEs (as defined). |
| NPE ratio | The NPE ratio is calculated as the NPEs (as defined) divided by gross loans (as defined). |
| Operating profit | Operating profit (on an underlying basis) comprises profit before loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for litigation, claims, regulatory and other matters (net of reversals), tax, profit attributable to non-controlling interests and non-recurring items (as defined). |
| Operating profit return on average assets | Operating profit return on average assets is calculated as the annualised (based on year to date days) operating profit (on an underlying basis) (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable. |
| Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company) | Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company) is the operating profit (as defined) adjusted for loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for litigation, claims, regulatory and other matters (net of reversals), tax and (profit)/loss attributable to non-controlling interests. |
| Profit/(loss) after tax – organic (attributable to the owners of the Company) | Profit/(loss) after tax - organic (attributable to the owners of the Company) is the profit/(loss) after tax and before non-recurring items (as defined) (attributable to the owners of the Company), adjusted for the 'Advisory and other restructuring costs – organic'. |

| | |
|---|---|
| Return on Tangible Equity (ROTE) after tax and before non-recurring items | Return on Tangible Equity (ROTE) after tax and before non-recurring items is calculated as Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company) (as defined) per the underlying basis (annualised - (based on year-to-date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end. |
| Return on Tangible Equity (ROTE) | Return on Tangible Equity (ROTE) is calculated as Profit/(loss) after tax (attributable to the owners of the Company) (annualised - (based on year-to-date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end. |
| Total expenses | Total expenses on an underlying basis comprises the total staff costs (excluding 'Restructuring costs – Voluntary Staff Exit Plan (VEP)') (on an underlying basis as reconciled in the table further below), special levy on deposits and other levies/contributions and other operating expenses (excluding 'Advisory and other restructuring costs-organic', 'Restructuring and other costs relating to NPE sales' (on an underlying basis as reconciled in the table further below). |
| Total income | Total income on the underlying basis comprises the total of net interest income, net fee and commission income, net foreign exchange gains, net gains/(losses) on financial instruments (excluding net gains/(losses) on loans and advances to customers at FVPL), insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of property and other income (on an underlying basis). A reconciliation of these amounts between the statutory and the underlying bases is disclosed in the Directors' Report under section 'Group financial results on the underlying basis'. |

## RECONCILIATIONS

For the purpose of the 'Alternative Performance Measures Disclosures', reference to 'Note' relates to the respective note in the Consolidated Financial Statements for the year ended 31 December 2022.

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Gross loans and advances to customers as per the underlying basis (as defined above) | **10,217,453** | 10,856,660 |
| **Reconciling items:** | | |
| Residual fair value adjustment on initial recognition (Note 23) | **(89,029)** | (105,678) |
| Gross loans and advances to customers at amortised cost classified as held for sale (Note 45.3) | **-** | (555,789) |
| Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale (Note 45.3) | **-** | (19,090) |
| Loans and advances to customers measured at fair value through profit or loss (Note 23) | **(214,359)** | (281,868) |
| Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss | **3,270** | (53,700) |
| **Gross loans and advances to customers at amortised cost as per the Consolidated Financial Statements** (Note 23) | **9,917,335** | 9,840,535 |

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Gross loans and advances to customers classified as held for sale as per the underlying basis | **-** | 574,879 |
| **Reconciling items:** | | |
| Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale (Note 45.3) | **-** | (19,090) |
| **Loans and advances to customers classified as held for sale as per the Consolidated Financial Statements** (Note 29) | **-** | 555,789 |

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Allowance for expected credit losses on loans and advances to customers (ECL) as per the underlying basis (as defined above) | **281,630** | 791,830 |
| **Reconciling items:** | | |
| Residual fair value adjustment on initial recognition (Note 23) | **(89,029)** | (105,678) |
| Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss | **3,270** | (53,700) |
| Allowance for expected credit losses on loans and advances to customers classified as held for sale (Note 29) | **-** | (305,419) |
| Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale (Note 45.3) | **-** | (19,090) |
| Provisions for financial guarantees and commitments (Note 34) | **(17,429)** | (21,945) |
| **Allowance for ECL for impairment of loans and advances to customers as per the Consolidated Financial Statements** (Note 23) | **178,442** | 285,998 |

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

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Allowance for expected credit losses on loans and advances to customers (ECL) classified as held for sale as per the underlying basis | **-** | 324,509 |
| **Reconciling items:** | | |
| Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale (Note 45.3) | **-** | (19,090) |
| **Allowance for ECL for impairment of loans and advances to customers classified as held for sale as per the Consolidated Financial Statements** (Note 29) | **-** | 305,419 |

**3. Reconciliation of NPEs**

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| NPEs as per the underlying basis (as defined above) | **410,563** | 1,343,308 |
| **Reconciling items:** | | |
| Loans and advances to customers (NPEs) classified as held for sale *(Note 1 below)* | **-** | (553,619) |
| Residual fair value adjustment on initial recognition of loans and advances to customers (NPEs) classified as held for sale *(Note 2 below)* | **-** | (19,030) |
| Loans and advances to customers measured at fair value through profit or loss (NPEs) | **-** | (122,972) |
| POCI (NPEs) *(Note 3 below)* | **(37,742)** | (70,814) |
| Residual fair value adjustment on initial recognition of loans and advances to customers (NPEs) classified as Stage 3 (Note 23) | **(1,803)** | (3,530) |
| **Stage 3 gross loans and advances to customers at amortised cost as per the Consolidated Financial Statements** (Note 23) | **371,018** | 573,343 |
| **NPE ratio** | | |
| NPEs (as per table above) (€000) | **410,563** | 1,343,308 |
| Gross loans and advances to customers (as per table above) (€000) | **10,217,453** | 10,856,660 |
| Ratio of NPE/Gross loans (%) | **4.0%** | 12.4% |

**Note 1**: As at 31 December 2022, there were no loans and advances to customers classified as held for sale. As at 31 December 2021, gross loans at amortised cost after residual fair value adjustment on initial recognition classified as held for sale include an amount of €474,459 thousand Stage 3 loans and an amount of €79,160 thousand POCI – Stage 3 loans (out of a total of €79,255 thousand POCI loans) as disclosed in Note 45.3 of the Consolidated Financial Statements for the year ended 31 December 2022.

### 3. Reconciliation of NPEs (continued)

**Note 2**: As at 31 December 2022, there were no loans and advances to customers classified as held for sale. As at 31 December 2021, the residual fair value adjustment on initial recognition of loans and advances to customers classified as held for sale includes an amount of €2,079 thousand for Stage 3 loans and an amount of €16,951 thousand for POCI – Stage 3 loans (out of a total of €16,954 thousand POCI loans) as disclosed in Note 45.3 of the Consolidated Financial Statements for the year ended 31 December 2022.

**Note 3**: Gross loans and advances to customers at amortised cost before residual fair value adjustment on initial recognition include an amount of €37,742 thousand POCI – Stage 3 loans (out of a total of €115,544 thousand POCI loans) (2021: €70,814 thousand POCI – Stage 3 loans (out of a total of €159,755 thousand POCI loans)) as disclosed in Note 23 of the Consolidated Financial Statements for the year ended 31 December 2022.

### 4. Reconciliation of Loan credit losses

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Loan credit losses as per the underlying basis | **46,717** | 66,353 |
| **Reconciling items:** | | |
| Reversal of loan credit losses relating to NPE sales, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis | **(685)** | (12,579) |
| | **46,032** | 53,774 |
| Loan credit losses (as defined) are reconciled to the statutory basis as follows: | | |
| Credit losses to cover credit risk on loans and advances to customers (Note 16) | **56,510** | 40,341 |
| Net gains on derecognition of financial assets measured at amortised cost – loans and advances to customers (see further below) | **(6,428)** | (3,859) |
| Net (gains)/losses on loans and advances to customers at FVPL (Note 11) | **(4,050)** | 17,292 |
| | **46,032** | 53,774 |

*Net gains on derecognition of financial assets measured at amortised cost in the Consolidated Income Statement amount to €5,235 thousand (2021: €3,859 thousand) and comprise €6,428 thousand (2021: €3,859 thousand) net gains on derecognition of loans and advances to customers and €1,193 thousand (2021: nil) net losses on derecognition of debt securities measured at amortised cost.*

## KEY PERFORMANCE RATIOS INFORMATION

For the purpose of the 'Alternative Performance Measures Disclosures', reference to 'Note' relates to the respective note in the Consolidated Financial Statements for the year ended 31 December 2022.

### 1. Net Interest Margin

The various components for the calculation of net interest margin are provided below:

| **1.1 Net interest income used in the calculation of NIM** | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Net interest income as per the underlying basis/statutory basis | **371,179** | 296,616 |

| **1.2 Interest earning assets** | **31 December 2022** | 30 September 2022 | 30 June 2022 | 31 March 2022 | 31 December 2021 |
|---|---|---|---|---|---|
| | | | €000 | €000 | €000 |
| Cash and balances with central banks | **9,567,258** | 9,827,431 | 9,904,549 | 9,329,711 | 9,230,883 |
| Loans and advances to banks | **204,811** | 457,598 | 312,308 | 312,967 | 291,632 |
| Loans and advances to customers | **9,961,642** | 10,093,082 | 10,149,450 | 10,009,855 | 9,836,405 |
| Loans and advances to customers held for sale (Note 29) | **-** | 236,389 | 247,207 | 247,836 | 250,370 |
| Prepayments, accrued income and other assets – Deferred consideration receivable ('DPP') (Note 28) | **311,523** | 306,236 | 304,268 | 302,036 | 299,766 |
| *Investments* | | | | | |
| Debt securities (Note 20) | **2,508,862** | 2,270,359 | 1,913,771 | 1,860,853 | 1,930,388 |
| Less: Investments which are not interest bearing (Note 20) | **(8,968)** | (11,732) | (5,476) | (5,790) | (5,534) |
| **Total interest earning assets** | **22,545,128** | 23,179,363 | 22,826,077 | 22,057,468 | 21,833,910 |
| | | | | | |
| **1.3 Quarterly average interest earning assets (€000)** | | | | | |
| - 2022 | **22,488,389** | | | | |
| - 2021 | 20,436,098 | | | | |

## 1. Net Interest Margin (continued)

| **1.4 Net interest margin (NIM)** | **2022** | 2021 |
|---|---|---|
| Net interest income (as per table 1.1 above) (€000) | **371,179** | 296,616 |
| Quarterly average interest earning assets (as per table 1.3 above) (€000) | **22,488,389** | 20,436,098 |
| **NIM (%)** | **1.65%** | 1.45% |

## 2. Cost to income ratio

**2.1** Reconciliation of the various components of total expenses used in the cost to income ratio calculation from the underlying basis to the statutory basis is provided below:

| **2.1.1 Reconciliation of Staff costs** | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Total Staff costs as per the underlying basis | **190,036** | 202,487 |
| *Reclassifications for:* | | |
| Restructuring costs – voluntary exit plans and other termination benefits, separately presented under the underlying basis (Note 14) | **104,325** | 16,146 |
| Staff costs as per the statutory basis (Note 14) | **294,361** | 218,633 |

| **2.1.2 Reconciliation of Other operating expenses** | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Other operating expenses as per the underlying basis | **152,553** | 147,194 |
| *Reclassifications for:* | | |
| Operating expenses and restructuring costs relating to the NPE sales, presented within 'Restructuring and other costs relating to NPE sales' under the underlying basis | **2,911** | 14,011 |
| Advisory and other restructuring costs – organic, separately presented under the underlying basis | **11,225** | 9,113 |
| Other operating expenses as per the statutory basis (Note 15) | **166,689** | 170,318 |

**2. Cost to income ratio** (continued)

Reconciliation of the various components of total income used in the cost to income ratio calculation from the underlying basis to the statutory basis is provided below:

| **2.2 Total Income as per the underlying basis** | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Net interest income as per the underlying basis/statutory basis (as per table 1.1 above) | **371,179** | 296,616 |
| Net fee and commission income as per the underlying basis/statutory basis (Note 9) | **192,284** | 171,796 |
| Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost as per the underlying basis (as per table 2.3 below) | **36,100** | 25,030 |
| Insurance income net of claims and commissions (Note below) | **71,139** | 61,044 |
| Net losses from revaluation and disposal of investment properties and Net gains on disposal of stock of properties (as per the statutory basis) | **12,971** | 11,468 |
| Net loss from revaluation of investment properties classified as held for sale, disclosed within 'Provisions/net loss relating to NPE sales' (as per the underlying basis) | **-** | 1,006 |
| Other income (as per the statutory basis) | **16,681** | 14,244 |
| **Total Income as per the underlying basis** | **700,354** | 581,204 |

*Insurance income net of claims and commissions comprise 'Income from assets under insurance and reinsurance contracts' less 'Expenses from liabilities under insurance and reinsurance contracts' as per statutory basis.*

| **2.3 Reconciliation of Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost between the statutory basis and the underlying basis** | **2022** | 2021 (restated) |
|---|---|---|
| | **€000** | €000 |
| Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost as per the underlying basis | **36,100** | 25,030 |
| *Reclassifications for:* | | |
| Net gains/(losses) on loans and advances to customers measured at fair value through profit or loss (FVPL), disclosed within 'Loan credit losses' per the underlying basis (Note 11) | **4,050** | (17,292) |
| Net gains on derecognition of financial assets measured at amortised cost - loans and advances to customers (Table 4 Section 'Reconciliations' above) | **6,428** | 3,859 |
| Net loss on early redemption of subordinated loan stock, disclosed within 'Advisory and other restructuring costs – organic' under the underlying basis (Note 11) | **-** | (12,558) |
| Total Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost as per the statutory basis (see below) | **46,578** | (961) |
| | | |
| Net foreign exchange gains, Net gains/(losses) on financial instruments and Net gains on derecognition of financial assets measured at amortised cost (as per table above) are reconciled to the statutory basis as follows: | | |
| Net foreign exchange gains | **31,291** | 16,503 |
| Net gains/(losses) on financial instruments (Note 11) | **10,052** | (21,323) |
| Net gains on derecognition of financial assets measured at amortised cost | **5,235** | 3,859 |
| | **46,578** | (961) |

## 2. Cost to income ratio (continued)

| **2.4 Total Expenses as per the underlying basis** | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Staff costs as per the underlying basis (as per 2.1.1 table above) | **190,036** | 202,487 |
| Special levy on deposits and other levies/contributions as per the underlying basis/statutory basis | **38,492** | 36,350 |
| Other operating expenses as per the underlying basis (as per table 2.1.2 above) | **152,553** | 147,194 |
| **Total Expenses as per the underlying basis** | **381,081** | 386,031 |
| | | |
| **Cost to income ratio** | | |
| Total expenses (as per table 2.4 above) (€000) | **381,081** | 386,031 |
| Total income (as per table 2.2 above) (€000) | **700,354** | 581,204 |
| Total expenses/Total income (%) | **54%** | 66% |

## 3. Operating profit return on average assets

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

| | **31 December 2022** | 30 September 2022 | 30 June 2022 | 31 March 2022 | 31 December 2021 |
|---|---|---|---|---|---|
| | **€000** | €000 | €000 | €000 | €000 |
| **Total assets used in the computation of the operating profit return on average assets/per the Consolidated Balance Sheet** | **25,442,930** | 26,202,338 | 25,848,918 | 25,122,711 | 24,962,785 |
| | | | | | |
| **Quarterly average total assets (€000)** | | | | | |
| - 2022 | **25,515,936** | | | | |
| - 2021 | 23,656,626 | | | | |
| | | | | | |

| | **2022** | 2021 (restated) |
|---|---|---|
| Total income (as per table 2.2 above) (€000) | **700,354** | 581,204 |
| Total expenses (as per table 2.4 above) (€000) | **(381,081)** | (386,031) |
| Operating profit (€000) | **319,273** | 195,173 |
| Quarterly average total assets (€000) | **25,515,936** | 23,656,626 |
| Operating profit return on average assets (%) | **1.2%** | 0.8% |

## 4. Cost of Risk

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Loan credit losses (as per table 4 in section 'Reconciliation' above) | **46,717** | 66,353 |
| Average gross loans (as defined) (as per table 1.(a) above) | **10,537,056** | 11,558,915 |
| Cost of Risk (CoR) % | **0.44%** | 0.57% |

## 5. Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company

The various components used in the determination of the 'Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company (€ cent)' are provided below:

| | **2022** | 2021 |
|---|---|---|
| Profit after tax and before non-recurring items (attributable to the owners of the Company) per the underlying basis for the year ended 31 December (as per table 5.1 below) (€000) | **189,771** | 89,288 |
| Weighted average number of shares in issue during the year, excluding treasury shares (€000) (Note 18) | **9,597,945** | 9,597,945 |
| Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company (€ cent) | **1.98** | 0.93 |

The reconciliation between the 'Profit after tax and before non-recurring items (attributable to the owners of the Company)' per the underlying basis to the 'Profit after tax (attributable to the owners of the Company)' per the statutory basis is provided in the table below:

### 5.1 Reconciliation of Profit after tax-attributable to the owners of the Company

| | **2022** | 2021 |
|---|---|---|
| | **€000** | €000 |
| Profit after tax and before non-recurring items (attributable to the owners of the Company) per the underlying basis | **189,771** | 89,288 |
| *Reclassifications for:* | | |
| Reversal of loan credit losses relating to NPE sales, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis (as per table 4 above) | **685** | 12,579 |
| Net loss from revaluation of investment properties classified as held for sale, disclosed within 'Provisions/net loss relating to NPE sales' (as per table 2.2 above) | **-** | (1,006) |
| Impairment loss relating to stock of properties of Project Helix 3, separately disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' | **-** | (19,424) |
| Operating expenses and restructuring costs relating to the NPE sales, presented within 'Restructuring and other costs relating to NPE sales' under the underlying basis (as per table 2.1.2 above) | **(2,911)** | (16,120) |
| Advisory and other restructuring costs – organic, separately presented under the underlying basis (as per table 2.1.2 above) | **(11,225)** | (9,113) |
| Restructuring costs – voluntary exit plan, and other termination benefits, separately presented under the underlying basis (as per table 2.1.1 above) | **(104,325)** | (16,146) |
| Net loss on early redemption of subordinated loan stock, disclosed within 'Advisory and other restructuring costs – organic' under the underlying basis (as per table 2.3 above) (Note 11) | **-** | (12,558) |
| Profit after tax (attributable to the owners of the Company) per the statutory basis | **71,995** | 27,500 |

## 6. Return on tangible equity (ROTE) after tax and before non-recurring items

The various components used in the determination of 'Return on tangible equity (ROTE) after tax and before non-recurring items' are provided below:

| | **2022** | 2021 |
|---|---|---|
| Profit after tax and before non-recurring items (attributable to the owners of the Company) per the underlying basis for the year ended 31 December (as per table 5.1 above) (€000) | **189,771** | 89,288 |
| Quarterly average tangible total equity as at 31 December (as per table 6.2 below) (€000) | **1,667,140** | 1,651,119 |
| ROTE after tax and before non-recurring items (%) | **11.4%** | 5.4% |

| **6.1 Tangible total equity** | **31 December 2022** | 30 September 2022 | 30 June 2022 | 31 March 2022 | 31 December 2021 |
|---|---|---|---|---|---|
| | | | €000 | €000 | €000 |
| Equity attributable to the owners of the Company (as per the statutory basis) | **1,862,128** | 1,800,243 | 1,852,435 | 1,852,011 | 1,836,679 |
| Less: Intangible assets (as per the statutory basis) | **(168,322)** | (166,426) | (171,403) | (177,612) | (184,034) |
| **Total tangible equity** | **1,693,806** | 1,633,817 | 1,681,032 | 1,674,399 | 1,652,645 |
| | | | | | |
| **6.2 Quarterly average tangible total equity (€000)** | | | | | |
| - 2022 | **1,667,140** | | | | |
| - 2021 | 1,651,119 | | | | |

## 7. Return on tangible equity (ROTE)

| | **2022** | 2021 |
|---|---|---|
| Profit after tax (attributable to the owners of the Company) for the year ended 31 December (as per table 5.1 above) (€000) | **71,995** | 27,500 |
| Quarterly average tangible total equity as at 31 December (as per table 6.2 above) (€000) | **1,667,140** | 1,651,119 |
| ROTE | **4.3%** | 1.7% |