COMMENTARY

Group Financial Results for the year ended 31 December 2020

8 April 2021

Hellenic Bank Public Company Ltd ("Hellenic Bank") profile

Headquartered in Nicosia (Cyprus), Hellenic Bank is the second largest financial institution in Cyprus and offers a wide range of banking and financial services, including financing, investment, insurance services, as well as custodian and factoring services. Its network includes 63 branches in Cyprus as well as 3 representative offices. At 31 December 2020, Hellenic Bank had total assets and shareholders' equity of €15,9 billion and €1.128 million, respectively.

HIGHLIGHTS – FY2020 GROUP FINANCIAL RESULTS

ONGOING RESILIENCE TO WEATHER THE PANDEMIC INDUCED ECONOMIC CRISIS

- Authorities proactiveness and unprecedented fiscal support to contain the impact on the economy and society
- Resilient business model, strong capital position and ample liquidity, a shield against the crisis
- Supporting our customers, keeping our employees safe and ensuring business continuity

RESILIENT PERFORMANCE DURING AN UNPRECEDENTED ECONOMIC CRISIS

- **FY2020 Profit after tax** of €50,5 million, despite impairment losses remaining elevated
- **FY2020 Profit before impairment losses** of €125,7 million
- **FY2020 Impairment losses** of €67,0 million and **Cost of risk** (CoR) 1,5%
- **FY2020 Impairment losses** includes a €43,3 million charge[1] related to COVID-19 impact
- **FY2020 Net interest income** of €285,5 million, **NIM** of 1,88%
- **Tangible Book Value per Share** of €2,61
- **FY2020 New lending** totalling €1.040,8 million

CAPITAL

- **CET1 ratio** of 20,01%[2] and **Capital adequacy ratio** of 22,34%[2]
- Capital ratios significantly above minimum capital requirements and compare favorably with EU average

LOAN PORTFOLIO QUALITY[3]

- Ongoing organic and non-organic efforts to resolve NPEs
- **NPEs to gross loans ratio (excl. APS-NPEs)** at 15,7% and **NPEs provision coverage ratio (excl. APS-NPEs)** at 58,9%
- **Net NPEs[4] to total assets ratio (excl. APS-NPEs)** at 2,8%

LIQUIDITY AND FUNDING

- Robust liquidity position, with a **Liquidity Coverage Ratio** of 477% and a liquidity surplus of €5,5 billion
- **Net loans to deposits ratio** of 43,0%
- A solid, stable, primarily retail deposit base

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[1] COVID-19 impact on the loan portfolio of €64,5 million less COVID-19 impact on APS indemnification asset of €21,2 million.

[2] On a transitional basis. Including 2020 profits, prior to obtaining AGM approval of year end profits or permission from Supervisory Authorities.

[3] Excluding the exposures classified as held for sale as per IFRSs.

[4] Net NPEs = NPEs minus Accumulated impairment losses.

Statement by Interim CEO Phivos Stasopoulos

Commenting on the Group's financial results, **Mr. Phivos Stasopoulos, the Group's Interim Chief Executive Officer**, stated:

Hellenic Bank has demonstrated exemplary resilience and strength, during an extraordinary year due to the pandemic. 2020 was a real-time stress test for just about every corporation in almost every industry in the world.

Throughout this period, we continued placing utmost emphasis on protecting our employees and our customers whilst continuing to service our customer base. From the onset of the crisis, we successfully triggered our business continuity plans to deal with the unprecedented health crisis and to continue providing full service. To this end, we continuously reassess the situation, and adapt where needed, by taking any necessary action.

Our 2020 financial results demonstrate the robustness and resilience of our business model and financial position, in the face of significant and persisting uncertainty. With a solid capital adequacy ratio of 22,34 % and excess liquidity (Liquidity Coverage Ratio of 477%), we are very well positioned to support our viable customers and finance the recovery of the country's economy. New lending during 2020 exceeded €1 billion making it a record year for Hellenic Bank. The solid performance of 2020 delivered an after tax profit of €50,5 million. At the same time, we have been working intensively on improving the quality of our portfolio through resolving and deleveraging our NPE exposures which have been reduced to 15,7% (NPEs ratio, excl. APS-NPEs).

We remain committed to transforming the Bank into a modern customer-centric organization offering seamless experience to our customers and value-adding products and services. We put great emphasis in educating and migrating our customers to alternative channels and we are very pleased to see that they embraced this digital transformation effort as more than 85% of total transactions are executed through alternative channels.

I sincerely thank our Board of Directors and shareholders for their continuous support, empowerment and confidence shown to us, and assure them, that the whole team at Hellenic Bank remains fully committed to achieve its goals and strategic objectives. I also extend my great appreciation to each and every member of the big Hellenic Bank family, to our people, for their strong commitment, resilience and hard work during these unforeseen and exceptional circumstances.

PERFORMANCE HIGHLIGHTS

Income Statement highlights (€million)	FY2020	FY2019	Δ YoY	4Q2020	3Q2020	Δ QoQ	2Q2020	1Q2020
Profit from ordinary operations before impairment losses on financial instruments and non-financial assets	125,7	131,6	-5%	31,1	30,4	+2%	34,5	29,6
Impairment losses on financial instruments and non-financial assets	(67,0)	(36,7)	+82%	(17,3)	(7,3)	+138%	(13,3)	(29,1)
Profit before the share of results of associate company	58,6	94,9	-38%	13,8	23,2	-41%	21,2	0,5
Share of results of associate company net of taxation	1,7	1,5	+11%	0,6	0,5	+8%	0,5	0,1
Taxation	(9,8)	12,0	-182%	(3,9)	(1,4)	+181%	(1,8)	(2,9)
Profit for the year	50,5	108,4	-53%	10,5	22,3	-53%	19,9	(2,2)
Profit attributable to the shareholders of the parent company	50,5	107,7	-53%	10,5	22,3	-53%	19,9	(2,2)

Alternative Performance Indicators (APIs)	FY2020	FY2019	Δ YoY	4Q2020	3Q2020	Δ QoQ	2Q2020	1Q2020
Net Interest Margin (%)	1,88%	1,92%	-5 bps	1,94%	1,90%	+4 bps	1,89%	1,80%
Cost to income ratio (%)	67,9%	67,5%	+42 bps	71,0%	68,1%	+285 bps	63,9%	68,1%
Cost of risk (%)	1,5%	0,4%	+108 bps	2,0%	0,4%	+162 bps	0,9%	2,4%
Return on Tangible Equity (%)	4,8%	12,0%	-716 bps	3,9%	8,5%	-455 bps	7,7%	-0,9%
Earnings per share (cent €)	12,23	29,52	-17,29	2,5	5,40	-2,86	4,82	-0,54

bps = basis points, 100 basis points (bps) = 1 percentage point
For definitions of APIs refer to Appendix 3.

PERFORMANCE HIGHLIGHTS

Financial Position highlights (€million)	31.12.2020	31.12.2019	Δ
Gross loans	6.802	7.244	-6%
Gross Non-Performing Loans	1.503	2.276	-34%
Gross Performing Loans	5.298	4.968	+7%
Loans (net of provisions for impairment)	6.097	5.979	+2%
Investment assets	9.143	9.707	-6%
Of which Cash and placements with other banks and Central Banks	*4.052*	*5.357*	*-24%*
Of which Investments in debt securities	*5.024*	*4.300*	*+17%*
Total assets	15.857	16.308	-3%
Deposits	14.180	14.602	-3%
Shareholders' Funds	1.128	1.077	+5%
Risk Weighted Assets (RWAs) (transitional basis)	5.556	5.039	+10%

Alternative Performance Indicators (APIs)	31.12.2020[5]	31.12.2019	Δ
CET 1 ratio (%) (transitional basis)	20,01%	19,98%	+3 bps
Capital Adequacy ratio (%) (transitional basis)	22,34%	22,56%	-22 bps
NPEs to gross loans ratio (%)	22,1%	31,4%	-932 bps
Net NPEs to total assets ratio (%)	5,0%	6,2%	-116 bps
NPEs provision coverage ratio (%)	46,9%	55,6%	-870 bps
Net loans to deposits ratio (%)	43,0%	40,9%	+205 bps
Tangible Book Value per Share (TBVPS) (€)	2,61	2,49	+0,12
Liquidity Coverage ratio (%)	477,0%	512,0%	-3.500 bps

bps = basis points, 100 basis points (bps) = 1 percentage point
For definitions of APIs refer to Appendix 3.

[5] On a transitional basis. Including 2020 profits, prior to obtaining AGM approval of year end profits or permission from Supervisory Authorities.

FINANCIAL RESULTS

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1. ANALYSIS OF THE FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

1.1 Income Statement Analysis

Net interest income

Net interest income for FY2020 was €285,5 million, down by 5% compared to €301,3 million for FY2019. The decrease YoY was mainly driven by the lower income on performing loans (lending base rates reduction) and lower income from debt securities (Cyprus Government Bonds (CGBs) with nominal value of €750 million matured in December 2019), which was partly covered by the ongoing reductions in the average cost of deposits.

Net interest income for 4Q2020 amounted to €73,2 million up by 2% compared to €71,7 million in 3Q2020.

The Group's **net interest margin (NIM)** for FY2020 amounted to 1,88% (FY2019: 1,92%).

Non-interest income

Total non-interest income for FY2020 amounted to €105,8 million, up by 2% compared to €103,4 million for FY2019. The increase was mainly driven by the increase in **net gains on disposal and revaluation of foreign currencies and financial instruments.**

Net gains on disposal and revaluation of foreign currencies and financial instruments amounted to €13,4 million, up by 26% compared to €10,7 million for FY2019. The increase was mainly as a result of the increase in unrealised net revaluation gains arising from investments in instruments at fair value through profit and loss held by the Group partially offset by the decrease in gains on revaluation of foreign currencies.

For FY2020, unrealised net revaluation gains arising from investments in instruments at fair value through profit and loss include an amount of €5,4 million mainly resulting from the remeasurement of the Bank's investment in Visa Inc. Preferred Stock following its first release assessment and the partial conversion that took place.

Net fee and commission income for FY2020 was €57,6 million, slightly up by 1% compared to €57,3 million for FY2019. The increase was mainly due to higher commission income from insurance operations some of which is non-recurring, partially offset by the lower banking fees and commissions due to COVID-19 lockdown.

Other income for FY2020 amounted to €34,7 million, down by 2% compared to €35,4 million in FY2019, as a result of lower gain from the disposal of stock of properties held for sale and net gains from revaluation of investment properties, partially offset by the increase in net income from insurance operations mainly due to COVID-19 lockdown.

Total non-interest income for 4Q2020 increased by 42% to €33,9 million, compared to €23,8 million in 3Q2020, due to the increase in **net gains on disposal and revaluation of foreign currencies and financial instruments** as explained above, and the increase in **net fee and commission income**. The increase in **net fee and commission income** is due to seasonality in 4Q2020 and the increase in transaction volumes which recovered following the COVID-19 lockdown.

Expenses

Total expenses for FY2020 amounted to €265,6 million and compared to €273,0 million for FY2019 decreased by 3% mainly due to lower administrative and other expenses.

Following the completion of the agreement for obtaining the governance and operational control of APS Debt Servicing Cyprus Ltd (APS Cyprus) on the 30 November 2020, the financial results of the APS Cyprus as of 1 December 2020 are fully consolidated. For the year ended 31 December 2020, the financial results of APS Cyprus contributed 1% to the Group's total expenses.

On a quarterly basis, 4Q2020 **total expenses** amounted to €76,1 million and were up by 17% compared to €65,1 million in 3Q2020 mainly due to the higher administrative expenses and other expenses and staff costs.

Staff costs

Staff costs for FY2020 amounted to €132,1 million and accounted for 50% of the Group's total expenses (FY2019: 46%). Compared to €126,7 million for FY2019, FY2020 staff costs recorded an increase of 4%, due to the salary increases granted by the Group during December 2020, the increase in National Health Insurance Scheme (NHS) contributions during 2020 and the impact of the acquisition of control of APS Cyprus.

Staff costs for 4Q2020 increased by 25% compared to €31,2 million in 3Q2020, mainly due to salary increases reflected in 4Q2020 results and the impact of the acquisition of control of APS Cyprus.

Administrative and other expenses

Total administrative and other expenses for FY2020 amounted to €110,2 million with 11% decrease compared to €124,2 million for FY2019. During FY2020, the Bank received a notification about the risk-based contribution to the DGS[6] (National Deposit Guarantee and Resolution of Credit and Other Institutions Scheme) attributable for 2020. The total contribution was set at €5,0 million and, in line with IFRSs, it was charged in administrative and other expenses in 1Q2020 and 3Q2020. The DGS contribution and the increase during the FY2020 in regulatory supervisory fees and repairs and maintenance (YoY increase in repairs and maintenance was mainly due to IT related costs) were offset by decreases in other components of administrative and other expenses. The main components contributing to the said decrease were the lower Servicer's administration fees, Consultancy and other professional services fees and Other administrative expenses.

4Q2020 **total administrative and other expenses** amounted to €31,0 million and compared to the €27,9 million in 3Q2020 recorded an increase of 11%. The increase was mainly driven by the increase in Other administrative expenses, partially offset by the decrease in DGS contribution charged in 3Q2020 for the second half of 2020.

During 3Q2020, the employment agreement between the CEO and the Group was terminated, and an amount of €909 thousand was charged to the Income Statement, out of which €666 thousand was charged under administrative expenses and other expenses and the remaining amount of €243 thousand was charged under staff costs.

The cost to income ratio for FY2020 was 67,9%, compared to 67,5% for FY2019 (reflecting the lower decrease in total expenses compared to the decrease in total net income). The **cost to income ratio**, for 4Q2020 amounted to 71,0% compared to 68,1% in 3Q2020, reflecting the QoQ increase in both total expenses (17%) and total net income (12%).

Adjusting for the Special Levy, the DGS contribution and the Early retirement compensation, FY2020 and 4Q2020 **cost to income ratio** decreased to 60,9% and 66,0% respectively. Adjusting for the Special Levy (FY2019 DGS contribution and Early retirement compensation are nil), FY2019 **cost to income ratio** amounted to 62,0%.

[6] As per Deposit Guarantee and Resolution of Credit and Other Institutions Scheme Laws of 2016 and 2018 (the "Law"), and the Resolution of Credit and Investment Firms Law of 2016.

Impairment losses on financial instruments and non-financial assets

Impairment losses on financial instruments

The charge for impairment losses on financial instruments amounted to €55,0 million for FY2020 and recorded a significant increase compared to the €23,2 million for FY2019. The increased impairment losses were driven by the elevated impairment losses on the loan portfolio, mainly as a result of the impact of the COVID-19 outbreak (€64,5 million).

The effect of the pandemic on the macroeconomic outlook has led to changes in the provisioning parameters applied during 1Q2020 and 4Q2020 (probabilities of default and loss given default parameters) resulting to an impairment charge of €48,0 million.

Following the negative implications of COVID-19 pandemic on specific sectors of the economy, during FY2020 a total impairment charge of €16,5 million was recognised as COVID-19 impact, due to the re-staging of the Accommodation and Food Services sector and other industries assessed as "high-risk" under the collective model and have opted for the moratorium scheme during 2020 and for Individually Assessed Groups in "high-risk" industries. Based on the assessment of the impact of COVID-19 to the current and expected performance of our highly impacted Groups, the Bank reclassified some Groups to Stage 2 whilst for certain Groups already in Stage 2 and Stage 3, parameters were reassessed in order to reflect the most recent expectations.

However, the elevated impairment losses on the loan portfolio were partially offset by the increase in the APS indemnification asset with a corresponding credit in impairment losses on other financial assets, due to the re-measurement of the estimated future cash flows arising from claims to be made by the Bank in the event of APS losses resulting mainly from the impact of COVID-19 pandemic (€21,2 million) and the impact from the withdrawal of certain assets from the APS scheme[7], consisting of loans, following assessment of the portfolio covered by the APS.

Impairment losses on financial instruments for 4Q2020 amounted to a charge of €6,2 million and remained at similar levels compared to €7,0 million in 3Q2020, as explained above.

The **cost of risk (annualised)** for FY2020 and for 4Q2020 amounted to 1,5% (FY2019: 0,4%) and 2,0% respectively. By taking out the COVID-19 impact of €64,5 million on loan portfolio as described above, the **cost of risk** for FY2020 is reduced by 95 bps to 0,5%. Adjusting for the amortisation of the APS indemnification asset, FY2020 and 4Q2020 **cost of risk (annualised)** decreased to 1,0% and 0,7% respectively.

[7] As per the Bank's announcement dated 21st December 2020.

Impairment losses on non-financial assets

Impairment losses on non-financial assets for FY2020 amounted to €12,0 million with 11% decrease compared to €13,5 million for FY2019. **Impairment losses on non-financial assets** for FY2019, mainly include an amount of €12,1 million regarding impairment charge resulting from the reassessment of the NRVs of the REOs portfolio expected to be sold taking into consideration potential liquidity discounts. For FY2020, impairment losses on REOs amounted to €4,4 million.

Impairment losses on non-financial assets for FY2020, include fair value loss on remeasurement of previously held interest in investment in associate company of €3,5 million resulting from the acquisition of control of APS Cyprus and impairment losses of €3,2 million following the revaluation of land and buildings during 2020, by independent qualified valuers on a market value basis for their existing use.

Additionally, impairment charge on the Intangible asset recognised on Core deposits from the acquisition of certain assets and liabilities of the Cyprus Cooperative Bank Ltd ("CCB") of €0,8 million was charged in FY2020, following the reassessment of the key assumptions in determining the fair value less costs of disposal, mainly due to the decrease in interest rates of the Bank.

I**mpairment losses on non-financial assets** for 4Q2020 amounted to €11,2 million and recorded a significant increase compared to the €0,2 million in 3Q2020, as explained above.

Profit before share of results of associate company for FY2020 amounted to €58,6 million down by 38% compared to €94,9 million FY2019. The main drivers of the decrease were the lower interest income and increased impairment losses for FY2020.

Share of results in associate net of taxation, amounted to €1,7 million profit for the period ended 30 November 2020 compared to €1,5 million profit for FY2019.

Profit before taxation for FY2020 amounted to €60,3 million (4Q2020: €14,3 million, 3Q2020: €23,7 million).

Taxation for FY2020 amounted to a tax charge of €9,8 million (FY2019: €12,0 million tax credit) and included a deferred tax charge of €4,2 million and a corporation tax charge of €5,6 million on taxable gains. The deferred tax charge was mainly due to the utilisation of brought forward taxable losses against taxable profits for FY2020.

Profit for the year amounted to €50,5 million compared to a profit for FY2019 of €108,4 million.

1.2 Statement of Financial Position Analysis

As at 31 December 2020, the Group's **total assets** amounted to €15,9 billion, decreased by 3% compared to €16,3 billion as at 31 December 2019, mainly due to the lower investment assets as a result of decreases in cash and placements with other banks and Central Banks, partially offset by the increase in investments in debt securities due to acquisitions made in FY2020.

1.2.1 Deposits and Loans

Customer deposits amounted to €14,2 billion as at 31 December 2020 (31 December 2019: €14,6 billion). They comprised of €13,3 billion deposits in Euro (31 December 2019: €13,6 billion) and €0,9 billion deposits in foreign currencies (31 December 2019: €1,0 billion), mostly in US Dollars. The 3% decrease was mainly due to the deposit outflows incurred in FY2020 driven by the negative deposit rates applied in March 2020 on non-households.

The Bank's **deposits market share**[8] as at 31 December 2020 stood at 29,6% (31 December 2019: 30,1%).

Total new lending approved during FY2020 reached €1.040,8 million (FY2019: €812,3 million). The Bank continued providing lending to creditworthy businesses and households while examining other growth opportunities.

Gross loans as at 31 December 2020 amounted to €6.802 million[9], decreased by 6% compared to €7.244 million as at 31 December 2019. The performing loan portfolio increased by 7% while the non-performing loan portfolio decreased by 34%[9] compared to 31 December 2019. The decrease in NPEs was driven by non-contractual write offs in the range of c.€0,6 billion executed during FY2020 (FY2019: c.€0,1 billion). During FY2020, net write-offs of loan impairment losses[10] amounted to €686,1 million[11] (FY2019: €216,8 million). Collections and cures amounted to c.€200 million during FY2020, representing high quality deleveraging. The Bank's **loan market share**[8] as at 31 December 2020 was 21,5% (31 December 2019: 21,4%).

The net loans to deposits ratio stood at 43,0% as at 31 December 2020 (31 December 2019: 40,9%).

Loan moratorium

In the light of the COVID-19 crisis, a moratorium was applied, as voted by the Cyprus Parliament, to all individuals or legal entities across different sectors who applied and were eligible under the scheme (suspension of instalments of capital and interest for a period of nine months) until 31 December 2020. **The gross carrying amount of the loans and advances subject to moratorium** on loan repayments amounted to €2,8 billion as at 31 December 2020 (of which €0,8 billion are covered by the APS), comprising of gross loans to Households of €1,5 billion and gross loans to Non-financial corporations of €1,3 billion, representing 41% of total gross loans[9]. Performing exposures subject to moratorium accounted for 49% of performing loan portfolio.

The payment holiday of all these loans expired on 31 December 2020, and loans of €1,4 billion have at least one loan instalment payment due by March 2021.

A second scheme for the suspension of instalments of capital and interest (loan moratorium) was introduced in January 2021[12], following the expiration of the first moratorium on 31 December 2020, for customers impacted by the second lockdown, subject to certain criteria. Under the second moratorium scheme, payment deferrals may be offered until 30 June 2021, however, the total months under loan moratorium, when including the loan moratorium offered in 2020, should not exceed a total of nine months.

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8 Source: Central Bank of Cyprus (CBC) and Hellenic Bank.

9 Excluding the exposures classified as held for sale.

10 Net write-offs: The Group reduces, either partially or in full, the carrying amount of a financial asset when there is no reasonable expectation of recovery.

11 Includes the c.€0,6 billion non-contractual write offs executed during FY2020.

12 As announced by the Cyprus Government on 15 January 2021.

The application period for the second moratorium scheme expired on 31 January 2021 and the assessment was completed on 28 February 2021, with 129 debtors approved for inclusion in the second moratorium. The gross carrying amount of the loans and advances subject to the second moratorium amounted to €21,5 million, comprising of gross loans to Households of €9,8 million and gross loans to Non-financial corporations of €11,7 million.

Following expiry of the first moratorium, payment behaviour is encouraging, with repayments duly met for 89% of such borrowers which participated in the first moratorium and had a payment fall due by the end of March 2021. Nevertheless, the Bank continues to adopt an appropriately prudent approach and is in readiness in terms of monitoring procedures and day-to-day management of the accounts to deal with early arrears. The Bank’s total performing portfolio in arrears remains at lower levels compared to pre-COVID 19 levels, as at the end of March 2021.

1.2.2 Loan Portfolio Quality

Throughout 2020, the Bank committed time and resources in an effort to dispose a material portfolio of non-performing loans. Due to the market disruption caused by the events surrounding the coronavirus (COVID-19) outbreak, it was not possible to execute such a transaction within the original timeframes set. The Bank remains committed to accelerate its deleveraging through inorganic sales, and continues to work with its advisors to prepare for the disposal of a material non-performing portfolio. The possibility to progress such transaction during 2021 is being examined, depending always on prevalent market conditions.

Irrespective of the above, the Bank was able to progress the execution of two smaller NPL transactions of a total of c.€160 million contractual exposures with gross book value of €50,5 million and carrying amount of €8,7 million¸ which remains subject to customary, regulatory and other approvals. This further demonstrates the Bank’s strong commitment towards ongoing deleveraging.

The Bank remains committed and continues to work with its advisors towards examining available structuring options for the disposal of a material NPE portfolio which will expedite the clean-up of the Bank from legacy NPEs. As in the past, a preparation phase will involve the definition of the NPE portfolio perimeter, evaluation of real estate collaterals, data remediation and enhancement of data tapes, preparation of borrower information memorandums, legal due diligence and transaction structuring options. During 2021, the Bank will engage international advisors and anticipates entering discussions with third parties who may be interested in pursuing a possible collaboration with the Bank as part of NPE sale initiatives.

As per IFRSs, the above portfolios were classified as held for sale as at 31 December 2020, and are carried at fair value less costs to sell until disposal and derecognition from the Group’s statement of financial position. Figures and APIs disclosed throughout the Commentary, are excluding the exposures classified as held for sale. Where figures and APIs disclosed are provided on a different basis, this is stated.

NPEs amounted to €1.503 million as at 31 December 2020 and compared to €2.276 million as at 31 December 2019, recorded a decrease of 34% (NPEs excluding NPEs covered by the APS agreement amounted to €1,1 billion as at 31 December 2020 and €1,8 billion as at 31 December 2019).

Overall, the decrease in NPEs was driven by the c.€0,6 billion non-contractual write offs executed during FY2020, as well as the collections and cures which amounted to c.€200 million during FY2020, offsetting NPE increases mainly from new defaults and interest accrual. The non-contractual write offs were executed on the gross carrying amount of a portfolio of NPEs and correspondingly reduced the accumulated impairment amount associated with this portfolio by an almost equal amount. The portfolio affected consisted of NPEs which exhibited high arrears, and which had been in default for more than 4 years. Following the implementation of the non-contractual write offs, the gross carrying amount reflects the estimated recoverable balance for each exposure. The Bank performs non-contractual write offs on the gross carrying amount of NPEs where there is a very low probability of recovery based on available security and recovery strategy being pursued.

Terminated loans included in NPEs amounted to €789 million as at 31 December 2020 (31 December 2019: €1.435 million). Gross loans with forbearance measures as at 31 December 2020 amounted to €953 million (31 December 2019: €1.225 million).

The stock of properties, which are mostly from customers' debt settlement, amounted to €208,4 million as at 31 December 2020 (31 December 2019: €177,3 million). The movement in the balance of stock of properties from customers' debt settlement for FY020 included an amount of €53,6 million[13] of additions, an amount of €18,0 million[13] of disposals and an amount of €4,4 million of impairment.

The NPEs to gross loans ratio as at 31 December 2020 was 22,1% compared to 31,4% as at 31 December 2019. The NPEs to gross loans ratio excluding the NPEs covered by the APS agreement as at 31 December 2020 was 15,7% (31 December 2019: 24,9%). **NPEs to gross loans ratio**, including the exposures classified as held for sale amounts to 22,7%.

The **net NPEs to total assets ratio** as at 31 December 2020 stood at 5,0%, (2,8% excluding APS-NPEs) compared to 6,2% as at 31 December 2019 (31 December 2019: 3,6% excluding APS-NPEs).

Total accumulated impairment losses amounted to €705 million as at 31 December 2020 (31 December 2019: €1.265 million) and represented 10,4% of the total gross loans (31 December 2019: 17,5%). Total accumulated impairment losses over gross loans excluding the loans covered by the APS agreement was 12,4% (31 December 2019: 23,3%).

The NPEs provision coverage ratio stood at 46,9% as at 31 December 2020 (31 December 2019: 55,6%), while excluding the NPEs covered by the APS agreement, the ratio is adjusted to 58,9% (31 December 2019: 67,4%). Taking into account tangible collaterals[14] the **net NPEs collateral coverage ratio** stood at 134,5% as at 31 December 2020 (31 December 2019: 125,3%), while excluding the NPEs covered by the APS agreement and the corresponding tangible collateral and provisions of the NPEs covered by the APS agreement, the ratio is adjusted to 155,5% (31 December 2019: 143,3%).

Effective from 1 January 2021, the Bank has implemented the new default definition[15], which affects NPEs and the calculation of days past due. As at 1 January 2021, the impact of this change on the Group is immaterial.

1.2.3 Investment Assets

The carrying value of investment assets amounted to €9.143 million as at 31 December 2020 (31 December 2019: €9.707 million) and represented 57,7% of the Group's total assets (31 December 2019: 59,6%). Investment assets comprise of cash and balances with Central Banks, placements with other banks, investments in debt securities, investments in shares and other securities and collective investment units and investment in associate. Total investment assets decreased by 6% compared to 31 December 2019, mostly due to the decrease in cash and placements with other banks and Central Banks offset by the increase in investments in debt securities due to acquisitions made in FY2020.

The Group's cash and placements with other banks and Central Banks amounted to €4.052 million as at 31 December 2020 (31 December 2019: €5.357 million). Most foreign currency placements were with P-1 rated banks[16]. The decrease of 24% compared to 31 December 2019 was mainly driven by the new investments made within FY2020.

The Group's investments in debt securities amounted to €5.024 million as at 31 December 2020 (31 December 2019: €4.300 million), up by 17% and represented 31,7% of total assets (31 December 2019: 26,4%). The net increase was mainly due to acquisitions made in FY2020. Acquisitions included mainly high grade investments in financial institutions senior unsecured bonds, covered bonds, RMBS (Residential Mortgage Backed Security), CLOs (Collateralised Loan Obligations), Cyprus Government T-bills and High Yield Corporate bonds through a discretionary Asset Manager mandate.

Investments in financial institutions and securitisations represent 37% and 8% of the Group's investments in debt securities respectively (31 December 2019: 23% and 0%).

[13] Book value.
[14] Based on open market values (capped at client exposure).
[15] As per EBA final draft Regulatory Technical Standards on the materiality threshold for credit obligations past due (EBA/RTS/2016/06) and EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).
[16] Prime-1 short term rating by Moody's.

The CGBs[17] held by the Group at 31 December 2020 amounted to €2.443 million and compared to €2.987 million as at 31 December 2019, were down by 18%. The decrease was mainly due to maturity of bonds. Out of the total CGBs held by the Group, €940 million will mature within a period of less than 1 year and the remaining €1.503 million will mature within 1 and 5 years.

The Group's investment in associate as at 31 December 2020 was NIL compared to €7,8 million as at 31 December 2019, which represented the Bank's retained interest in APS Cyprus and the corresponding share of profits.

The Bank and APS Holding Cyprus Ltd reached an agreement on 7 August 2020[18] to restructure the agreements entered into in January 2017 in relation to the establishment of APS Debt Servicing Cyprus Ltd (APS Cyprus), allowing the Bank to take over the governance and operational control of APS Cyprus. The agreement will allow the Bank to be in a position to quickly scale up both its outsourced debt servicing operations if required in the future. APS's representatives will continue to provide loan management and real estate expertise through their participation in the board of directors of the Company and by offering know how and expertise on an ongoing basis. The agreement was completed on the 30 November 2020. As of 1 December 2020, the financial results of the APS Cyprus are fully consolidated.

[17] Republic of Cyprus is currently being rated as Ba2 by Moody's, BBB- by Fitch, BBB- by S&P.
[18] As per the Bank's announcement dated 10th August 2020.

1.2.4 Capital Base and Adequacy

The Capital Adequacy Ratios[19] of the Group under Pillar I, **which are above the minimum regulatory requirements**, were as follows:

Capital Adequacy Ratios	Group (transitional basis IFRS 9)[20,21]			Group (fully loaded basis IFRS 9)[20,21]		Minimum regulatory capital requirements (Phase-in)
	31.12.2020[19]	31.12.2019	Δ	31.12.2020[19]	31.12.2019	2020[22]
Capital Adequacy Ratio (%)	22,34%	22,56%	-22 bps	21,55%	22,06%	14,45%
Tier 1 Ratio (%)	22,34%	22,56%	-22 bps	21,55%	22,06%	11,65%
Common Equity Tier 1 (CET 1) Ratio (%)	20,01%	19,98%	+3 bps	19,18%	19,47%	9,55%
Common Equity Tier 1 capital (€million)	1.112	1.007	+10%	1.052	974	n/a
Risk Weighted Assets (RWAs) (€million)	5.556	5.039	+10%	5.485	5.003	n/a

The increase of 3 basis in CET 1 ratio[19] (transitional basis) compared to 31 December 2019, was the result of the following:

i) increase in CET1 capital, due to:
   - current period profits (effect of 87 basis points increase),
   - the change in IFRS 9 transitional arrangements added back to CET1, reduced from 85% for 2019 to 70% for 2020 (net effect of 1 basis point increase) offset by the COVID-19 relief measures as per Regulation (EU) 2020/873 by which post 1 January 2020 expected credit losses are added back in CET1 in a phased out period of 5 years (100% for 2020, effect of 52 basis points increase),
   - the decrease in deferred tax asset and other intangible assets, deductible from CET1 (effect of 36 basis points increase) and the decrease in prudent valuation requirements due to the change in the accounting treatment of APS Cyprus, being consolidated for year-end reporting purposes (effect of 7 basis points increase),
   - the decrease in computer software deductible from CET1, due to the introduction of prudential treatment of software assets as per Regulation (EU) 2020/873 in the last quarter of 2020 (effect of 25 basis points increase),

ii) overall increase in RWAs, due to the increase in net funded exposures mainly as a result of the acquisitions of debt securities and the withdrawal of certain assets from the APS scheme (effect of 205 basis points decrease).

   The expected increase in the Lending portfolio which is mainly due to New Lending, has been partially offset by the beneficial decrease in RWAs of Lending Portfolio that relates to the earlier adoption, per Regulation (EU) 2020/873 in relation to COVID-19 relief measures, of the amendments, as introduced by Regulation (EU) 2019/876, to Article 501 of Regulation (EU) 575/2013, with regards to the application of an SME supporting factor.

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[19] Including 2020 profits, prior to obtaining AGM approval of year end profits or permission from Supervisory Authorities.

[20] As per Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017 issued amending Regulation (EU) No 575/2013 as regards the transitional arrangements for mitigating the impact of the introduction of IFRS 9, a portion of the impact of expected credit losses provisions is added back to CET 1 capital allowing for a transitional period of five years until full impact on 2023.

[21] As per Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulation (EU) No. 575/2013 and Regulation (EU) 2019/876, effective from June 2020, IFRS 9 transitional arrangements have been extended by 2 years (up until 31 December 2024), for post 1 January 2020 expected credit losses on Stages 1 and 2 exposures which are added back in CET 1 in a phased-out period of five years.

[22] Excluding Pillar II capital guidance (P2G) and based on 2019 SREP with reference date 31 December 2018, effective from 1 January 2020 and inclusive of the Pillar II requirement (P2R) amended composition effective from March 2020.

The corresponding capital ratios[19] of the Bank for 31 December 2020 were as follows:

Capital Adequacy Ratios	Transitional basis IFRS 9[20,21]	Fully loaded basis IFRS 9[20,21]
Capital Adequacy Ratio (%)	22,24%	21,45%
Tier 1 Ratio (%)	22,24%	21,45%
Common Equity Tier 1 (CET 1) Ratio (%)	19,92%	19,09%
Common Equity Tier 1 capital (€million)	1.110	1.051
Risk Weighted Assets (RWAs) (€million)	5.576	5.505

The Group's Capital Adequacy Ratio, CET 1 and Tier 1 ratios as at 31 December 2020, on a transitional basis, as per the final regulatory capital submission excluding year end profits, are set at 21,56%, 19,22% and 21,56%, respectively. Similarly, the Group's Capital Adequacy Ratio, CET 1 and Tier 1 ratios as at 31 December 2020, on a fully loaded basis, are set at 20,75%, 18,39% and 20,75%, respectively.

For the Bank the corresponding ratios for the Capital Adequacy Ratio, CET 1 and Tier 1 ratios as at 31 December 2020, on a transitional basis, are set at 21,43%, 19,10% and 21,43%, respectively. Similarly, the Bank's Capital Adequacy Ratio, CET 1 and Tier 1 ratios as at 31 December 2020, on a fully loaded basis, are set at 20,63%, 18,27% and 20,63%, respectively.

Leverage Ratio

As at 31 December 2020 the Leverage Ratio[19,23] for the Group was 7,71% (Bank: 7,69%) compared to 6,87% (Bank: 6,85%) as at 31 December 2019. The Leverage Ratio[19,23] on a fully loaded basis for the Group was 7,36% (Bank: 7,35%) as at 31 December 2020 compared to 6,68% (Bank: 6,67%) as at 31 December 2019.

The Group's Leverage Ratio as at 31 December 2020, on a transitional basis, as per the final regulatory capital submission excluding year end profits, was 7,43% (Bank: 7,41%). Similarly, the Group's Leverage Ratio as at 31 December 2020, on a fully loaded basis, was 7,09% (Bank: 7,07%).

Supervisory Review and Evaluation Process 2020 (SREP 2020)

As per ECB's communication received in November 2020, the ECB is not issuing a SREP decision for the 2020 SREP cycle, which was based on the SREP assessment carried out in 2020 with **reference date 30 June 2020** and also having regard to any **other relevant information received after that date**, and the requirements established by the 2019 SREP decision[24] continue to apply, including in particular the capital requirements. This communication follows the relevant ECB's announcement on May 2020, that the ECB will be adopting a pragmatic approach towards the SREP for the 2020 cycle.

Consequently, the Bank is required to maintain for 2021 on a consolidated basis, **a phase-in Capital Adequacy Ratio of 14,45%,** which includes:

- the minimum Pillar I own funds requirements of 8% in accordance with Article 92(1) of Regulation (EU) No 575/2013 (of which up to 1,5% can be met with Additional Tier 1 Capital and up to 2% with Tier 2 Capital),
- an own funds Pillar II requirement of 3,2% required to be held in excess of the minimum own funds requirement (effective from March 2020, P2R to be met with 56,25% of CET1, 18,75% of AT1 and 25% of T2), and
- a phased-in combined buffer requirement which for 2021 includes the fully loaded capital conservation buffer of 2,5% which has to be made up with CET 1 capital and the O-SII buffer of 0,75%[25], with application starting from 1 January 2019 which is phased-in over a period of five years[25].

[23] Calculated in accordance with the Regulation (EU) No 2015/62 of the European Parliament and Council dated 10th of October 2014.
[24] Based on the final decision received, on 4 December 2019, of ECB's intention to adopt a decision establishing prudential requirements pursuant to Article 16 of Council Regulation (EU) No 1024/2013.
[25] As per CBC circular dated 7 May 2020, the fully loaded O-SII buffer for Hellenic remains at 1,5% but with the phasing-in being deferred by 12 months, from the original 4 years, as a relief measure aiming to further assist corporations and households to deal with the economic consequences of the COVID-19 pandemic.

Additionally, applicable for Hellenic Bank, the combined buffer requirement includes:

- an institution specific Countercyclical capital buffer (CCyB) calculated as a weighted average of the countercyclical buffer rates that apply in the countries where an institution's credit exposures are located. The CCyB for Cyprus, where the majority of the Bank's exposures are located, was set at 0%, by CBC, for 2020 and 2019, as well as for the first half of 2021. For the remaining exposures, the CCyB for 2020 was 0%, while for 2019 was 0,02% for UK exposures due to the UK buffer of 1%.
- Systemic Risk Buffer (the reciprocation of the Estonian Systemic Risk buffer for exposures located in Estonia of credit institutions authorised in Cyprus adopted by CBC, has been terminated as of 30 May 2019).

Based on the 2020 SREP communication the Pillar II requirement which is applicable for 2021 has remained the same as in 2020 at 3,2%, as the 2019 SREP decision remains in force. Furthermore, the Bank shall continue to refrain from making distributions to its shareholders, as the 2019 SREP decision continues to apply.

Taking into account the above, the Group's minimum **Capital Adequacy Ratio, CET 1 and Tier 1 ratios for 2021 are set at 14,45%, 9,55% and 11,65% respectively**[22]**.**

In addition to the above, the ECB has provided on a consolidated basis, a Pillar II capital guidance to be made up entirely of CET 1 capital, which has remained the same as in 2020, as the 2019 SREP decision remains in force.

The capital ratios[19] of the Group, are above minimum regulatory requirements based on the final SREP as shown below:

Capital Adequacy Ratios	**31.12.2020 (transitional basis IFRS 9)**[20,21]	**31.12.2020 (fully loaded basis IFRS 9)**[20,21]	**Minimum regulatory capital requirements (Phase-in)**
			2021[22]
Capital Adequacy Ratio (%)	22,34%	21,55%	14,45%
Tier 1 Ratio (%)	22,34%	21,55%	11,65%
Common Equity Tier 1 (CET 1) Ratio (%)	20,01%	19,18%	9,55%

2. ECONOMIC ENVIRONMENT

The Cyprus economy after the economic and financial crisis of 2013, and its negative impact, returned to positive growth rates in 2015, recording the highest performance in GDP growth in the European Union (EE) from 2016 to 2018.

The steady and sensible fiscal policy led to economic stabilization and restoration of the country's credibility in international markets and improved credit ratings. Growth was solid, with an average annual growth of 4,5% during the period of 2015 - 2019. The Cyprus economy grew at a satisfactory rate of 3,1% in 2019, supported by strong domestic demand on the back low unemployment (7,1%) and wage growth. Consecutive fiscal surpluses reduced public debt down to under 100% of GDP. The favourable economic conditions and positive assessments for further development and strengthening of the economy were unexpectedly interrupted by the coronavirus pandemic.

The COVID-19 pandemic which started in Cyprus and remains until today, led the European and global economy to a sharp recession. Cyprus has been greatly affected by the global pandemic as well, both in terms of health and economic impact. The Cyprus's GDP declined 5% in 2020 on a yearly basis, according to statistics released by the Cyprus Statistical Service. The authorities put in place a large emergency fiscal package to address the crisis, focused on preserving jobs and providing liquidity for households and firms. The banking sector entered the crisis with comfortable capital and liquidity buffers and, together with the support of the ECB's accommodative monetary policy, facilitated the provision of credit to the economy.

Cyprus managed the first wave of the COVID-19 pandemic relatively well thanks to an early and vigorous public health response. Nonetheless, unprecedented disruptions to economic and social activity caused a deep recession in the first half of 2020. The gradual easing of containment measures since early-May has led to a partial revival of economic activity, but in late-October a localized “soft lockdown” was announced to counter a new wave of infections, followed by stricter restrictions in mid-December across the island. Facing continued high infection rates, the government significantly tightened the lockdown measures in early-January 2021 up until the end of the same month where all non-essential stores closed, while schools transferred to distance learning. Gatherings have been restricted and nightly curfews were introduced across the island.

The COVID-19 pandemic caused a sharp economic contraction in Cyprus of 5,6% in the first half of 2020, due to the containment measures and a sharp, synchronized global slowdown. The contraction was broad based: private consumption shrank by 5,6% and investment by 12,4%. Nonetheless, thanks to a successful initial public health response and strong fiscal policy support, the economy proved more resilient than in many peers. At the cost of a larger national debt, the emergency measures taken by the Government of the Republic of Cyprus have made it possible to contain the crisis' devastating effects on production factors. This was made possible by the temporary suspension of the Stability Pact's budget monitoring rules, giving some leeway to EU Member States. This suspension will remain in effect in 2021 and therefore the year's budget will continue to provide targeted and temporary support.

Cyprus GDP rebounded 8,9% quarter on-quarter in 3Q2020 but was still down 4,7% year-on-year, while the resurgence of infections, and the renewed lockdown, demonstrated the continuing challenge of reopening the economy while keeping the virus in check. Amid the resurgence of new infections, activity in retail and recreation declined again in 4Q2020 by an annual 4,5%. However, as the renewed lockdown only started in mid-December and was initially considerably less stringent than the March-April lockdown, the contraction is smaller than in Spring. For the year as a whole, GDP declined by 5,1%. 4Q2020 economic decline is expected to heavily impact 2021 growth due to overhang effects. For this reason, real GDP growth in the first quarter of 2021 is expected to remain negative, but nonetheless to be smaller than what was observed in the first half of 2020.

In 2021, a negative first quarter, is expected to be followed by three quarters of growth as vaccinations become widespread and normal economic activity resumes. Taking into account the new information, a partial recovery with a GDP growth rate of about 4% is expected in 2021. Despite the projected recovery in 2021, output is not expected to return to its pre-crisis level until 2022.

2. ECONOMIC ENVIRONMENT

Assuming no other infection wave that would require another strict lockdown, the public health situation is expected to keep dictating the pace of growth in the first half of 2021. The tangible effects of the vaccination campaign are not expected to materialise until the second half of 2021. The profile of 2021 outlook will still be largely determined by the spread of the virus. The availability of a vaccine does not alter this profile but reduces the extreme risk in the Bank's baseline scenario. The pace of growth will be dependent again on the degree of support from economic policies. Although the developments on COVID-19 effective vaccines raise hopes, significant uncertainties remain. If new infections begin to surge or intensify, longer-lasting lockdowns might become necessary, with adverse economic consequences. In addition, delays in vaccine distribution or low vaccine take-up could also require stricter containment measures.

Recent facts and circumstances around COVID-19 during 2020 suggest that the Cyprus economy is being negatively impacted, by the pandemic outbreak and the resulting disruption of economic activity, which could primarily impact specific lending portfolios. This development along with the loan moratoria to households and businesses come to an end, may adversely affect the ability of certain borrowers to repay their obligations and, consequently, the amount of expected credit risk losses. The economic implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently.

Expected Credit Losses (ECL) measurement and Forward-looking information

For the purposes of determining the expected credit losses (ECL), the Bank calculates the expected cash flows based on the weighted probability of three macroeconomic scenarios. In line with IFRS 9 impairment requirements, forward-looking information, including current conditions and projections of macroeconomic and other factors, are incorporated in a range of unbiased future economic scenarios for ECL purposes. The ECL estimate incorporates the expected impact of all reasonable and supportable forward-looking information, taking into consideration the macroeconomic factors. The Bank incorporated three forward-looking macroeconomic scenarios in its ECL calculations process: a baseline scenario, an optimistic scenario and a pessimistic scenario.

Macroeconomic input and weights per scenario are constructed by the Economic Research Department of the Bank through modern econometric techniques and are based on expert judgment based on market data. For the financial results for the year ended 31 December 2020, the Bank, responding to the unprecedented circumstances of the COVID-19 crisis, revised the forward-looking information applied in the calculation of the ECL, regarding the key macroeconomic variables: real GDP growth, inflation, unemployment and property price indices. In addition, the Bank's Management applied the appropriate level of judgement regarding its expectations for the severity and the longevity of the economy's negative outlook, in line with the ECB and other Banking regulators' statements.

The macroeconomic variables affecting the level of ECL are GDP, the rate of unemployment and forward-looking prices of residential and commercial real estates. The Bank has introduced a series of scenarios envisaging negative growth rates for 2020, ranging from -4,2% (optimistic) with a relatively speedy return to its pre-COVID-19 upward path, to -8% (pessimistic scenario) with domestic economic activity broadly weakening over the shorter-term. The scenarios entail a rise in the rate of unemployment at 10% in the current year, before resuming again its downward path. For 2021, a partial rebound in economic performance is expected with growth reaching 4%, boosted by the use of the domestic and EU funds. On the longer term, the economy converges with the long-term potential GDP growth rates pre-COVID-19.

Regarding real estate prices forecasts for the baseline scenario, the Bank has assessed that there are no substantial indications that the current situation will significantly affect real estate prices in the short term, hence property prices growth in 2020 are estimated to be in the range of 1,2% to -2% for residential and commercial properties, respectively. In the baseline scenario, residential (commercial) property prices are expected to decline by 1% (2%) in 2021 reflecting the subdued economic activity, before increasing by 1,5% (2%) in 2022. Based on the pessimistic scenario, residential property prices are expected to decrease by 1% in 2020 and by 3% in 2021, while commercial real prices are expected to decline by 4% in 2020 and by 2,5% in 2021.

3. STRATEGIC TARGETS AND OUTLOOK

In delivering its strategy, Hellenic Bank remains committed to being a strong bank that meets the expectations of its shareholders, employees, clients and the society.

Recent facts and circumstances around COVID-19 during 2020 suggest that the Cyprus economy is being negatively impacted, by the pandemic outbreak and the resulting disruption of economic activity, which could primarily impact specific lending portfolios. This development along with the loan moratoria to households and businesses come to an end, may adversely affect the ability of certain borrowers to repay their obligations and, consequently, the amount of expected credit risk losses. The economic implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently.

The Bank is closely monitoring the affected loan portfolio and applies effective, efficient and comprehensive arrears management of incremental credit risk of the exposures, with the use of early warning triggers and behavioural scoring models, in order to mitigate the risk of potential new defaults. With a sizable part of the loan portfolio already assessed through lifetime provisioning and with c.25% of performing loans covered by the Asset Protection Scheme, the overall cost of risk in the short to medium term is expected to remain within reasonable levels.

In these challenging times, the Bank aims to remain in a robust position and will continue focusing on strengthening and improving its market position.

The Bank's strategy focuses on two aspects: growth focused on lending and strengthening of customer relationships and also deleveraging the NPEs portfolio. The Bank intends to continue to carry out its role in supporting viable businesses and households, while safeguarding its shareholders' value through prudent policies and in line with the Bank's target risk profile. The Bank's strategy also embraces advancements in technology, analytics and enhancement of the customer service, as well as streamlining of processes.

Through the creation of the first debt servicing platform in the Cypriot market, the Bank is able to effectively tackle its NPEs in an accelerated way and with higher recoveries. Moreover, the Bank remains focused to accelerate the de-risking of its non-performing exposures through portfolio disposals.

The Acquisition of certain assets and liabilities of CCB has improved the financial profile of the Bank and enabled the strengthening of its banking franchise across Cyprus, with an enlarged and diversified customer base. The Bank already achieves significant synergies, reflecting the complementary characteristics of the combined businesses.

The Bank has sufficient liquidity, allowing the exploitation of opportunities in various sectors of the economy and maintaining its focus on organic growth. The Bank aims to continue its pivotal role in the recovery of the real economy supporting creditworthy Cypriot businesses and households with a comprehensive range of quality banking services. The focus of new loans will continue to be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and trade, manufacturing, health, education, energy (including renewables), transportation and storage, information and communication and hospitality. At the same time, loans to individuals are geared toward mortgages. Hellenic Bank stands ready to support its clients, households and businesses, who will be affected by the coronavirus.

The Bank monitors closely the developments in the Cypriot, European and Global economic environment and assessing the situation as it is evolving, whilst continuing the implementation of its strategy. The operating environment remains challenging and the Bank aims to remain vigilant of developments and to turn these challenges into opportunities.

4. RECENT DEVELOMENTS

4.1 Minimum requirement for own funds and eligible liabilities

The Bank, within the framework of the Bank Recovery and Resolution Directive (BRRD), is subject to the minimum requirement for own funds and eligible liabilities (MREL).

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 it must be transposed into National Law. To date, this transposition has not yet taken place. Further to the above, 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 2021, the Bank received notification from the Single Resolution Board (SRB) of its draft decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank.

According to the draft decision, the minimum MREL requirement for the Bank is set at 24,10% of risk weighted assets (RWAs) and 5,91% of leverage ratio exposure (LR exposure) and this must be met by 31st December 2025. Furthermore, the Bank must comply with an interim requirement of 16,57% of RWAs and 5,91% of LR exposure by 1st January 2022. The own funds used by the Bank to meet the combined buffer requirement (CBR) will not be eligible to meet its MREL requirements expressed in terms of risk-weighted assets. Once the aforementioned decision becomes final (expected within April 2021), these requirements will replace those currently applicable.

The MREL ratio of the Bank as at 31 December 2020, calculated according to SRB's decision currently in effect and based on the Bank's internal estimate, stood at 19,1% of risk weighted assets. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, currently at 3,25% and expected to increase to 3,625% on 1 January 2022 (31 December 2019: 22,6%).

With the Bank having been provided with draft interim and final MREL targets by 1 January 2022 and by 31 December 2025, respectively, the Bank is evaluating options to initiate its MREL issuance by year-end 2021. Any decision regarding the type of MREL instrument (whether senior or subordinated debt) and amount issuance will be based on, among other factors, the future MREL requirements and market conditions at the relevant time.

APPENDIX 1 – GROUP INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION

GROUP INCOME STATEMENT (€million)	FY2020	FY2019	Δ YoY	4Q2020	3Q2020	Δ QoQ	2Q2020	1Q2020
Interest income	314,3	369,1	-15%	79,2	77,6	+2%	78,0	79,5
Interest expense	(28,9)	(67,9)	-57%	(6,0)	(5,9)	+1%	(6,6)	(10,4)
Net interest income	**285,5**	**301,3**	**-5%**	**73,2**	**71,7**	**+2%**	**71,4**	**69,1**
Fee and commission income	66,1	64,9	+2%	21,9	14,9	+47%	14,5	14,8
Fee and commission expense	(8,4)	(7,5)	+12%	(2,8)	(1,8)	+55%	(1,8)	(2,0)
Net fee and commission income	**57,6**	**57,3**	**+1%**	**19,0**	**13,1**	**+46%**	**12,8**	**12,8**
Net gains on disposal and revaluation of foreign currencies and financial instruments	13,4	10,7	+26%	7,2	2,7	+162%	3,1	0,4
Other income	34,7	35,4	-2%	7,7	8,0	-4%	8,5	10,6
Total net income	**391,3**	**404,6**	**-3%**	**107,2**	**95,5**	**+12%**	**95,7**	**92,9**
Staff costs	(132,1)	(126,7)	+4%	(39,1)	(31,2)	+25%	(30,3)	(31,5)
Depreciation and amortisation	(23,4)	(22,2)	+5%	(5,9)	(5,9)	-1%	(5,7)	(5,8)
Administrative and other expenses	(110,2)	(124,2)	-11%	(31,1)	(27,9)	+12%	(25,2)	(26,0)
Total expenses	**(265,6)**	**(273,0)**	**-3%**	**(76,1)**	**(65,1)**	**+17%**	**(61,2)**	**(63,3)**
Profit from ordinary operations before impairment losses on financial instruments and non-financial assets	**125,7**	**131,6**	**-5%**	**31,1**	**30,4**	**+2%**	**34,5**	**29,6**
Impairment losses on financial instruments	(55,0)	(23,2)	+137%	(6,2)	(7,0)	-13%	(13,1)	(28,8)
Impairment losses on non-financial assets	(12,0)	(13,5)	-11%	(11,2)	(0,2)	+4.456%	(0,3)	(0,3)
Profit before the share of results of associate company	**58,6**	**94,9**	**-38%**	**13,8**	**23,2**	**-41%**	**21,2**	**0,5**
Share of results of associate company net of taxation	1,7	1,5	+11%	0,6	0,5	+8%	0,5	0,1
Profit before taxation	**60,3**	**96,4**	**-37%**	**14,3**	**23,7**	**-39%**	**21,7**	**0,6**
Taxation	(9,8)	12,0	-182%	(3,8)	(1,4)	+181%	(1,8)	(2,9)
Profit for the year	**50,5**	**108,4**	**-53%**	**10,5**	**22,3**	**-53%**	**19,9**	**(2,2)**
Non-controlling interest	(0,0)	(0,7)	-100%	0,0	0,0	-	(0,0)	(0,0)
Profit attributable to the shareholders of the parent company	**50,5**	**107,7**	**-53%**	**10,5**	**22,3**	**-53%**	**19,9**	**(2,2)**

Note: Numbers may not add up due to rounding.

APPENDIX 1 – GROUP INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION

GROUP STATEMENT OF FINANCIAL POSITION (€million)	31.12.2020	31.12.2019	Δ
Cash and balances with Central Banks	3.635	4.962	-27%
Placements with other banks	417	395	+5%
Loans and advances to customers	6.097	5.979	+2%
Debt securities	5.024	4.300	+17%
Equity and Other securities and Collective Investment Units	67	42	+59%
Investment in associate company	0	8	-100%
Property, plant and equipment	183	182	+1%
Intangible assets	51	49	+5%
Tax receivable	1	1	+13%
Deferred tax asset	10	16	-40%
Non-current assets held for sale	9	0	+100%
Other assets	363	350	+4%
Total assets	**15.857**	**16.284**	**-3%**
Deposits by banks	143	174	-18%
Customer deposits and other customer accounts	14.180	14.602	-3%
Tax payable	9	5	+66%
Deferred tax liability	29	31	-7%
Other liabilities	239	265	-10%
Loan capital	130	130	0%
Total liabilities	**14.729**	**15.207**	**-3%**
Share capital	206	206	+0%
Reserves	921	870	+6%
Shareholder's equity	**1.128**	**1.077**	**+5%**
Non-controlling interest	0	0	0%
Total liabilities and equity	**15.857**	**16.284**	**-3%**
Contingent liabilities and commitments	1.321	1.382	-4%

Note: Numbers may not add up due to rounding.

APPENDIX 2 – GLOSSARY AND DEFINITIONS

Name	*Definition*
APS	*Asset Protection Scheme*
APS Cyprus	*APS Debt Servicing Cyprus Ltd*
Capital adequacy ratio	*Total capital divided by Risk Weighted Assets*
CBC	*Central Bank of Cyprus*
CCyB	*Countercyclical capital buffer*
CET 1 ratio	*Common Equity Tier 1 capital divided by Risk Weighted Assets*
CGBs	*Cyprus Government Bonds*
Cost of risk ratio (CoR)	*Impairment losses on loan portfolio (excluding the Impact of net modification and cash flows re-estimation and Net derecognition gain/loss) divided by gross loans at the end of the period (annualised).*
Cost to income ratio	*Total expenses over total net income*
Earnings/(loss) per share	*Profit/(loss) divided by the number of shares issued*
EBA	*European Banking Authority*
ECB	*European Central Bank*
Exposures classified as held for sale	*Exposures classified as held for sale, that met the criteria of IFRS 5 for which the Bank is expected to sell within 12 months from the classification date*
ECL	*Expected Credit Losses*
FY	*Financial year*
Gross Loans	*Gross carrying amount of loans and advances before deducting accumulated impairment losses*
Gross Loans with forbearance measures	*Forborne Exposures (EBA definition)*
IFRSs	*International Financial Reporting Standards*
Interest-bearing assets	*Consist of Cash and balances with Central Banks, placements with other banks, loans and advances to customers, investments in debt securities, indemnification assets and any receivables related to the indemnification asset. For calculating the average of the interest-bearing assets, the Bank uses the arithmetic average of total interest-bearing assets at each reporting date from the beginning of the year.*
Investment assets	*Investment assets comprise of cash and balances with Central Banks, placements with other banks, investments in debt securities, investments in shares and other securities and collective investment units and investment in associate.*
Investment in associate company	*Refers to the Bank's investment in APS Cyprus and represents the Bank's retained interest in APS Cyprus and the corresponding share of profits*
Leverage ratio	*Capital measure divided by the total on- and off- balance sheet items (Tier 1/total exposure measure)*
Liquidity Coverage ratio (LCR)	*Is the sum of high quality liquid assets over the expected net liquidity outflows during the next 30 days, as these net outflows are specified under a stress scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows.*
Net fee and commission income	*Fee and commission income less Fee and commission expense*
Net gains on disposal and revaluation of foreign currencies and financial instruments	*Consist of Gain on disposal and revaluation of foreign currencies, Gain on disposal and revaluation of debt securities and other financial instruments, surplus on revaluation of equity and other securities and changes in the fair value of financial instruments in fair value hedges.*
Net interest income	*Interest income less interest expense*
Net Interest Margin ratio (NIM)	*Net interest income divided by the average interest-bearing assets, annualised*
Net loans	*Loans and advances to customers net of accumulated impairment losses*
Net loans to deposits ratio	*Net loans and advances to customers divided by customer deposits and other customer accounts*
Net NPE ratio	*NPEs less accumulated impairment losses divided by Net Loans*
Net NPE to total assets ratio	*NPEs less accumulated impairment losses divided by total assets*
Net NPEs excl. APS-NPEs to total assets ratio	*NPEs less accumulated impairment losses exc. APS-NPEs divided by total assets*
Net NPEs collateral coverage ratio	*NPEs Collateral (taking into account tangible collateral, based on open market values, capped at client exposure) divided by NPEs net of accumulated impairment losses*
NPEs	*Gross non-performing exposures (EBA definition applicable as at 31 December 2020)*
NPEs provision coverage ratio	*Accumulated impairment losses divided by gross non-performing exposures*
NPEs provision coverage ratio excluding APS	*Accumulated impairment losses excl. accumulated impairment losses of APS-NPEs divided by gross NPEs excl. APS-NPEs*

APPENDIX 2 – GLOSSARY AND DEFINITIONS

Name	**Definition**
NPEs to gross loans ratio	*Gross non-performing exposures (EBA definition applicable as at 31 December 2020) divided by gross loans*
NPEs to gross loans ratio excl. APS-NPEs	*Gross non-performing exposures (EBA definition applicable as at 31 December 2020) excluding NPEs covered by the APS, divided by gross loans.* *Data on Asset Protection Scheme for the previous reporting dates is restated vis-à-vis data quality enhancements and validation of the process.*
Other income	*Consist of Dividend income, Net income from insurance operations, Gain from disposal of stock of property held for sale and Sundry income.*
O-SII	*Other Systemically important institution*
P2G	*Pillar II guidance*
P2R	*Pillar II requirement*
QoQ	*Quarter on quarter*
REO	*Real estate owned*
Return on Tangible Equity (ROTE)	*Profit/(loss) attributable to shareholders of the parent company (annualised) divided by average equity attributable to shareholders of the parent company less intangibles assets*
RWAs	*Risk Weighted Assets*
SMEs	*Small and Medium sized enterprises*
SREP	*Supervisory Review and Evaluation Process*
Tangible Equity	*Shareholders' equity minus Intangible assets*
Tangible Book Value per Share (TBVPS)	*Equity attributable to shareholders of the parent company less intangible assets divided by the number of issued shares*
Terminated loans	*The loan contract has been terminated by the Bank and such termination has been notified to the borrower and enforcement proceedings are initiated.*
Tier 1 ratio	*Tier 1 capital divided by Risk Weighted Assets*
Total non-interest income	*Consist of net fee and commission income, other income and net gains on disposal and revaluation of foreign currencies and financial instruments.*
YoY	*Year on year*

Basis of preparation of the Commentary on the Group Financial Results for the year ended 31 December 2020

The Commentary on the Group Financial Results for the year ended 31 December 2020 including Appendices (the "Commentary") is neither reviewed nor audited by the external auditors.

The purpose of the Commentary is to provide an overview of the Group Financial Results for the year ended 31 December 2020.

The Commentary should be read in conjunction with the Audited Consolidated Financial Statements for the year ended 31 December 2020 and the Presentation of the financial results for year ended 31 December 2020. Neither the Commentary nor the Presentation constitute statutory financial statements prepared in accordance with International Financial Reporting Standards.

The Commentary on the Group Financial Results for the for the year ended 31 December 2020, the Audited Consolidated Financial Statements for the year ended 31 December 2020, and the Presentation of the financial results for the year ended 31 December 2020 have been posted on the Group's website www.hellenicbank.com (Investor Relations).

For the reconciliations of the APM with the reported results calculated presented in accordance with IFRSs refer to the Audited Consolidated Financial Statements for the year ended 31 December 2020.

Disclaimer - Forward looking statements

Certain statements in the Commentary on the Group Financial Results including discussions with respect to the business strategy and plans of the Group, its current goals and expectations, its projections, beliefs, possibilities relating to its future financial condition and performance are forward-looking.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. Therefore, these risks and uncertainties could adversely affect the outcome and financial effect of what is described herein, and the audience of the Commentary are cautioned not to place undue reliance on such forward-looking statements. When relying on forward-looking statements, readers should carefully consider that there are important factors that could cause actual results to differ materially from those in forward-looking statements, certain of which are beyond the control of the Group, including, but not limited to, domestic and global economic and business conditions, market related risks such as interest or exchange rate risk, unexpected changes to regulation, competition, technological conditions and other. The forward-looking statements contained in the Commentary on the Group Financial Results are made as at the date of the Commentary and the Group undertakes no obligation to update or revise any of such statements unless otherwise required by applicable law. Analyses and opinions contained herein may be based on assumptions and projections that, if altered, can change the analyses or opinions expressed.