ANCORIA BANK

banking redefined

ANNUAL FINANCIAL REPORT 2020

Contents

Board of Directors

Andreas C. Kritiotis (Chairman – independent)
Charalambos Panayiotou (Vice Chairman)
Chloi Kyprianou Bohm (Non-executive independent)
Marios Clerides (Non-executive independent)
Bo Sievert Larsson (Non-executive)
Panayiotis Mavromichalis (Non-executive) – appointed 8 January 2020
Athena Papadopoulou (Non-executive independent)
Martin Eduard Philip Schenk (Non-executive independent) – resigned 29 September 2020
Alexandra Spyrou (Non-executive independent) – appointed 28 August 2020
Charidemos Theocharides (Non-executive independent)
Ioannis Loizou (Executive)
Nicolas Prentzas (Executive)

Secretary

Christos Papoutsas (until 26 November 2020)
Myria Agapiou (as of 26 November 2020)

Chief Executive Officer

Ioannis Loizou

Chief Financial Officer

Savvas Pashias

Registered Office

12 Demostheni Severi
1st floor
1080 Nicosia
Cyprus

Legal Advisors

Chryssafinis & Polyviou LLC

Independent Auditors

Deloitte Limited

Tax Advisors

KPMG Limited

The Board of Directors of Ancoria Bank Limited (the 'Company' or the 'Bank') submits to the shareholders its Management Report and the audited financial statements for the year ended 31 December 2020.

Incorporation

The Company was incorporated in Cyprus on 20 August 2013 as a limited liability company under the Cyprus Companies Law, Cap.113.

Principal activity

The principal activity of the Company is the provision of banking services.

On 14 October 2013, the Company filed an application with the Central Bank of Cyprus for a banking licence to enable the Company to operate as a Credit Institution under the Business of Credit Institutions Laws of 1997 and all amendments thereafter.

On 3 November 2014, the banking licence was granted by the Central Bank of Cyprus, subject to certain conditions that needed to be fulfilled prior to the commencement of any banking operations. These conditions were fulfilled during 2015, and the Company began operations as a Credit Institution in the last quarter of 2015.

Operating environment of the Bank and future developments

The Board of Directors recognises the difficulties involved in predicting all developments which could have an impact on the Cyprus economy and consequently the effect, if any, that they could have on the future financial performance, cash flows and financial position of the Bank. The Board of Directors will closely monitor all future developments in the economic and political environment in which it operates and take appropriate measures.

The Board of Directors is intensifying its efforts to develop the operations of the Bank in a manner consistent with the expectations of its stakeholders and regulators. As part of these efforts, amongst others, it has approved the revised 3-year business plan which will allow the Bank to fulfil its business objectives and become profitable. The business plan incorporates the impact of COVID-19 and the disruption it has caused to the Bank's customers, depositors and staff. In this respect, the business plan has considered downside scenarios and has used conservative economic inputs to derive expectations for its short to medium-term strategy.

Due to the dynamic nature of COVID-19, the full impact on the future profitability is difficult to estimate. The risks that Cyprus' economy is expected to face in 2021 are directly related to the progress of the pandemic's containment. The vaccination programme at both local and global level is a key factor to enable uninterrupted business activity.

Detailed information about the operating environment is set out in Note 36 to the financial statements.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2020 and as of the date of this report are presented on page 2.

Other than the resignation of Mr. Martin Eduard Philip Schenk and the appointments of Mr. Panayiotis Mavromichalis and Ms. Alexandra Spyrou, there were no other significant changes in the composition or distribution of responsibilities of the Board of Directors during the year ended 31 December 2020.

In its efforts to discharge its duties effectively, the Board of Directors convened 10 times during 2020, while the Board of Directors' Committees convened as follows:

- Audit Committee - 11 times
- Risk Committee – 13 times
- Remunerations and Nominations Committee - 5 times

In accordance with the Company's Articles of Association, all newly appointed directors by the Board shall continue in office until the next Annual General Meeting, at which time they shall retire and may offer themselves, if they so wish, for re-election.

Financial Results and Financial Position

The Bank's results for the year are set out on page 9.

The main financial highlights of the Bank for year 2020 are as follows:

	2020	2019
	€	€
Profit or Loss		
Net interest income	**5.069.963**	3.460.348
Operating income	**6.211.062**	4.065.417
Loss before loss allowance	**(1.122.480)**	(3.146.370)
Loss allowance	**(715.353)**	(25.680)
Loss for the year before tax	**(1.837.833)**	(3.172.050)
Loss for the year after tax	**(1.837.671)**	(3.172.118)
Loss per ordinary share in issue (€)[1]	**(16,56)**	(31,41)

[1] Loss per ordinary share is calculated by dividing the loss for the year after tax by the weighted average number of ordinary shares outstanding during the period.

	2020	2019
	€	€
Key Financial Position figures and ratios		
Customer deposits	**296.260.609**	224.584.481
Loans and advances to customers (gross)	**272.574.016**	210.150.157
Loans and advances to customers (net)	**271.430.543**	209.622.025
Net loans to deposits ratio	**92%**	93%
Impaired loans	**314.782**	206.918
Common Equity Tier 1 Capital ratio	**18,8%**	19,2%
Total Capital ratio	**18,8%**	19,2%
Risk weighted assets	**183.495.147**	137.854.596

Dividends

In 2020, no dividends were paid or declared by the Bank (2019: €nil).

Business Centres

The Bank operates through three business centres located in Nicosia, Limassol and Larnaca.

Information relating to share capital

Authorised capital

Under its Memorandum of Association, the Company fixed its authorised share capital at 1.000 ordinary shares of nominal value of €1 each. On 15 December 2014, the Company increased its authorised capital to 201.000 ordinary shares of nominal value of €1 each.

Issued capital

Upon incorporation on 20 August 2013, the Company issued to the subscribers of its Memorandum of Association 1.000 ordinary shares of €1 each at par.

On 15 December 2014, the Company issued 50.000 additional ordinary shares of €1 each, at a premium of €499 each. On 29 December 2014, the Company issued 38.493 additional ordinary shares of €1 each, at a premium of €499 each.

On 24 July 2015, the Bank issued 11.507 additional ordinary shares of €1 each, at a premium of €499 each.

Based on a resolution passed by the Board of Directors on 8 April 2020, the Bank has issued and allotted an additional 20.000 ordinary shares of €1 each at a premium of €499 each, to Ancoria Investments Plc for a total subscription price of €10.000.000.

As at 31 December 2020, the issued share capital of the Bank amounted to €60 million, through contributions from its immediate parent company.

There are no restrictions on the transfer of the Bank’s ordinary shares other than the provisions of the Bank’s Articles of Association and the Banking Law of Cyprus which requires the approval of the Central Bank of Cyprus prior to the acquiring of shares of the Bank in excess of certain thresholds.

Risk management

The Bank considers risk management to be a major process and a significant factor contributing towards the safeguarding of a stable return to its shareholders. The financial risks that the Bank is exposed to are mainly credit risk, operational risk, market risk, liquidity risk and capital risk. Detailed information relating to risk management is set out in Note 33 to the financial statements.

Events after the reporting date

As the second wave of the pandemic continued to adversely affect the economy well within the fourth quarter of 2020, the Cyprus Government continued implementing measures to sustain economic activity and retaining of jobs. As part of these measures, on 15 January 2021, a second moratorium for interest and principal repayments on loans to individuals and businesses was announced for selected borrowers with the following conditions:

- Suspension of loan repayments for six (6) months, hence until 30 June 2021;
- Applications had to be submitted by 31 January 2021 and would be either be approved or rejected by the relevant credit institution by 28 February 2021;
- Credit facilities which (i) were entered into after 30 March 2020; or (ii) were in default for a period exceeding 30 days from 31 December 2020; or (iii) had already benefited nine (9) months of interest and principal repayments suspension as per the first moratorium announced in 2020 were not eligible.

On 19 February 2021, the extension of the interest rate subsidisation scheme for new housing and business loans until 31 December 2021 was announced along with an increase in maximum eligible amounts. For new housing loans, the maximum eligible amount was raised to €400.000 (previously €300.000) and for new business loans the maximum eligible amount was raised as follows:

- €1.8 million per business or self-employed individual (previously €800.000);
- €270.000 per business or self-employed operating in the fishing and aquaculture sectors (previously €120.000).
- €225.000 per business or self-employed operating in the primary production of agricultural products (previously €100.000).

The extension of the scheme's period and changes in the maximum eligible amounts for new business loans were subject to the approval of the European Commission in relation to state aid regulations. The said approval was granted on 18 March 2021.

More details in respect of significant events that occurred after the reporting date are described in Note 38 to the financial statements.

Independent auditors

The independent auditors of the Bank, Deloitte Limited, have expressed their willingness to continue in office. A resolution for the election of the Bank's independent auditors and their remuneration will be proposed at the shareholders' Annual General Meeting.

By order of the Board of Directors

Μ. Αγαπίου

Myria Agapiou
Secretary

11 June 2021

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2020

	Note	2020 €	2019 €
Interest income	*4*	**5.611.367**	3.928.841
Interest expense	*5*	**(541.404)**	(468.493)
Net interest income		**5.069.963**	3.460.348
Fee and commission income	*6*	**1.334.202**	764.120
Fee and commission expense	*6*	**(221.620)**	(202.023)
Net fee and commission income		**1.112.582**	562.097
Net foreign exchange (losses) / gains		**(11.190)**	39.046
Gain on disposal of financial instruments		**-**	1.294
Net loss on disposal / write-off of property and equipment		**-**	(28.292)
Other income		**39.707**	30.924
Operating income		**6.211.062**	4.065.417
Staff costs	*7*	**(3.540.661)**	(3.423.750)
Depreciation of property and equipment	*20*	**(722.294)**	(702.140)
Amortisation of intangible assets	*21*	**(212.664)**	(369.928)
Other operating expenses	*8*	**(2.857.923)**	(2.715.969)
Loss before loss allowance		**(1.122.480)**	(3.146.370)
Loss allowance	*9*	**(715.353)**	(25.680)
Loss before tax	*10*	**(1.837.833)**	(3.172.050)
Income tax	*11*	**162**	(68)
Loss for the year		**(1.837.671)**	(3.172.118)
Other comprehensive income that will not be reclassified to profit or loss			
(Loss) / gain on revaluation of equity instruments at fair value through other comprehensive income	*28*	**(6.480)**	2.822
Other comprehensive income that will be reclassified to profit or loss			
Gain on revaluation of debt instruments at fair value through other comprehensive income	*28*	**4.882**	28.146
Total comprehensive loss for the year		**(1.839.269)**	(3.141.150)

Statement of Financial Position
as at 31 December 2020

	Note	2020 €	2019 €
ASSETS			
Cash and balances with Central Bank	*12*	**46.889.442**	24.054.654
Placements with banks	*13*	**4.557.610**	3.665.683
Loans and advances to customers	*14*	**271.430.543**	209.622.025
Financial assets at fair value through profit or loss	*15*	**-**	-
Investments at fair value through other comprehensive income	*16*	**2.187.431**	2.302.679
Investments at amortised cost	*17*	**25.452.008**	24.965.166
Other assets	*19*	**3.236.812**	2.866.253
Property and equipment	*20*	**6.851.945**	7.289.834
Intangible assets	*21*	**779.442**	691.296
Total assets		**361.385.233**	275.457.590
LIABILITIES			
Customer deposits	*22*	**296.260.609**	224.584.481
Funding from central banks	*23*	**18.000.000**	9.300.000
Other borrowings	*24*	**8.124.749**	9.275.340
Lease liabilities	*25*	**989.645**	1.106.651
Provisions and other liabilities	*26*	**2.683.417**	4.025.036
Total liabilities		**326.058.420**	248.291.508
EQUITY			
Share capital	*27*	**121.000**	101.000
Share premium	*27*	**59.880.000**	49.900.000
Revaluation reserve	*28*	**6.321**	7.919
Accumulated losses	*29*	**(24.680.508)**	(22.842.837)
Total equity		**35.326.813**	27.166.082
Total liabilities and equity		**361.385.233**	275.457.590

On 11 June 2021, the Board of Directors of Ancoria Bank Limited authorised these financial statements for issue.

Andreas C. Kritiotis
Chairman of the Board ....

Marios Clerides
Member of the Board ....

Ioannis Loizou
Member of the Board and Chief Executive Officer ....

Savvas Pashias
Chief Financial Officer ....

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital *(Note 27)* €	Share premium *(Note 27)* €	Revaluation reserve *(Note 28)* €	Accumulated losses *(Note 29)* €	Total €
Balance at 1 January 2020	**101.000**	**49.900.000**	**7.919**	**(22.842.837)**	**27.166.082**
Transactions with owners of the Company					
Issue of ordinary shares, at a premium	**20.000**	**9.980.000**	**-**	**-**	**10.000.000**
Comprehensive income					
Loss for the year	**-**	**-**	**-**	**(1.837.671)**	**(1.837.671)**
Other comprehensive loss for the year	**-**	**-**	**(1.598)**	**-**	**(1.598)**
Total comprehensive loss for the year	**-**	**-**	**(1.598)**	**(1.837.671)**	**(1.839.269)**
Balance as at 31 December 2020	**121.000**	**59.880.000**	**6.321**	**(24.680.508)**	**35.326.813**
Balance at 1 January 2019 as previously reported	101.000	49.900.000	(23.049)	(19.599.377)	30.378.574
Effect of change in accounting policy for initial application of IFRS 16	-	-	-	(71.342)	(71.342)
Balance at 1 January 2019 as restated	101.000	49.900.000	(23.049)	(19.670.719)	30.307.232
Comprehensive income					
Loss for the year	-	-	-	(3.172.118)	(3.172.118)
Other comprehensive income for the year	-	-	30.968	-	30.968
Total comprehensive income/(loss) for the year	-	-	30.968	(3.172.118)	(3.141.150)
Balance at 31 December 2019	101.000	49.900.000	7.919	(22.842.837)	27.166.082

Share premium is not available for distribution.

Statement of Cash Flows
for the year ended 31 December 2020

	Note	2020 €	2019 €
Net cash flow from / (used in) operating activities	*31*	**6.614.438**	(25.688.924)
Cash flow from investing activities			
Purchase of property and equipment	*20*	**(278.405)**	(127.623)
Purchase of intangible assets	*21*	**(300.810)**	(333.507)
Proceeds on disposal of property and equipment		**-**	15.350
Purchase of investments at fair value through other comprehensive income		**-**	(2.695.850)
Proceeds on disposal / redemption of investments at fair value through other comprehensive income		**100.000**	2.584.097
Purchase of investments at amortised cost		**(12.498.259)**	(16.496.151)
Proceeds on disposal / redemption of investments at amortised cost		**11.673.000**	9.325.000
Interest received from debt securities		**387.966**	404.263
Net cash flow used in investing activities		**(916.508)**	(7.324.421)
Cash flow from financing activities			
Proceeds of issue of ordinary shares	*27*	**10.000.000**	-
Proceeds of funding from central banks	*23*	**8.700.000**	9.300.000
Repayment of lease liabilities	*25*	**(184.063)**	(178.538)
Interest on lease liabilities	*25*	**(29.982)**	(35.400)
Net cash flow from financing activities		**18.485.955**	9.086.062
Net increase / (decrease) in cash and cash equivalents		**24.183.885**	(23.927.283)
Cash and cash equivalents			
At 1 January		**24.402.031**	48.329.314
Net increase / (decrease) in cash and cash equivalents		**24.183.885**	(23.927.283)
At 31 December	*32*	**48.585.916**	24.402.031

Significant non-cash transactions are disclosed in the notes to the financial statements.

1. Corporate information

The financial statements of Ancoria Bank Limited (the 'Company', or the 'Bank') for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 11 June 2021.

The Bank, which commenced operations in 2015, provides banking services in Cyprus. Its registered office is at 12 Demostheni Severi, 1st floor, 1080 Nicosia, Cyprus.

The Bank was incorporated in Cyprus on 20 August 2013 as a limited liability company under the Cyprus Companies Law, Cap.113.

On 14 October 2013, the Company filed an application with the Central Bank of Cyprus ('CBC') for a banking licence to enable the Company to operate as a Credit Institution under the Business of Credit Institutions Laws of 1997 and all amendments thereafter including No.4 of 2013.

On 3 November 2014, the banking licence was granted by the CBC subject to certain conditions that needed to be fulfilled prior to the commencement of any banking operations. These conditions were fulfilled during 2015 and the Company started operations as a Credit Institution in the last quarter of the year.

On 24 November 2014, the Company passed a special resolution to change its name from 'Ancoria Holdings Limited' to 'Ancoria Bank Limited'. The name change was approved by the Registrar of Companies on 30 April 2015.

The Company is a wholly owned subsidiary of, and ultimately controlled by, Ancoria Investments Plc which is registered in Cyprus, and which prepares consolidated financial statements including the results, position and cash flows of the Company.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements unless otherwise stated.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union ('EU'), and the requirements of the Cyprus Companies Law, Cap.113.

The Bank's management has applied the going concern assumption for the preparation of the financial statements, having taken into account relevant considerations presented in Note 3.1.

The financial statements are presented in Euro (€) and have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding the expected recovery or settlement of any asset and liability within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 30.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Bank's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates (refer to Note 3 for a description of significant judgments and estimates).

2. Significant accounting policies (continued)

2.2. Adoption of new and revised IFRSs

In the current year, the Bank has adopted all new and revised IFRSs that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2020.

Standard / Interpretation	Effective for annual periods beginning on or after
Amendments to IAS 1 and IAS 8 *Definition of Material*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*	1 January 2020
Amendments to IFRS 3 *Business Combinations*	1 January 2020
Amendments to IFRS 16 *COVID-19-Related Rent Concessions*	1 June 2020

The adoption of these new and revised standards and interpretations did not have a material effect on the accounting policies of the Bank.

2.3. Standards, Interpretations and Amendments issued but not yet effective

Up to the date of approval of these financial statements, the following standards have been published by the International Accounting Standards Board ('IASB') but were not yet effective:

a) Adopted by the EU

Standard / Interpretation	Effective for annual periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 14 and IFRS 16 *Interest Rate Benchmark Reform*	1 January 2021
Amendments to IFRS 4 *Deferral of IFRS 9*	1 January 2021

b) Not yet adopted by the EU

Standard / Interpretation	Effective for annual periods beginning on or after
Amendments to IAS 16 *Proceeds Before Intended Use*	1 January 2022
Amendments to IFRS 3 *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 37 *Onerous Contracts*	1 January 2022
Annual improvements to IFRS Standards 2018-2020 Cycle	1 January 2022
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IFRS 17 *Insurance Contracts*	1 January 2023
IAS 1 *Classification of Liabilities as Current or Non-Current*	1 January 2023
Amendments to IAS 8 *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

2. Significant accounting policies (continued)

2.3. Standards, Interpretations and Amendments issued but not yet effective (continued)

The Bank is in the process of evaluating the effect that the adoption of the above standards will have on the financial statements of the Bank, and it does not intend to early adopt any of them.

2.4. Revenue recognition

Revenue comprises of interest income, fee and commission income, dividend income and other income.

Interest income

For all financial assets measured at amortised cost and interest-bearing financial assets measured at fair value through other comprehensive income, interest income is recognised using the effective interest rate ('EIR') method.

The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or where appropriate a shorter period, to the carrying amount of the financial instruments. When calculating the EIR, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (e.g. prepayment, call option, etc.) but shall not consider future credit losses. The calculation includes all fees that are an integral part to the contract, incremental transaction costs and all premiums or discounts.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets except in the case of credit-impaired assets. When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. For purchased or originated credit-impaired ('POCI') financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

The Bank holds cash and placements with banks and central banks carrying negative interest rates. The Bank discloses interest on these assets under 'Interest expense' line.

Fee and commission income

The Bank earns fee and commission income from a range of services it provides to its clients. Fees and commissions in respect of loans and advances are recognised using the EIR method as part of interest income. In general, fee income can be divided into two broad categories:

- fees earned from services that are provided over a certain period of time, and
- fees earned from point in time services

<u>Over time services</u>

Fees earned from services that are provided over a certain period of time are 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 Bank. Costs to fulfil over time services are recorded in profit or loss 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.

<u>Point in time services</u>

Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not subject to refund or another contingency beyond the control of the Bank. 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.

2. Significant accounting policies (continued)

2.4. Revenue recognition (continued)

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer. Consideration can include both fixed and variable amounts. 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.

Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established. This is the ex-dividend date for listed equity securities and usually the date when shareholders approve the dividend for unlisted equity securities. Dividend income is recognised under 'Other income' line.

2.5. Foreign currency translation

The functional and presentation currency of the Bank is the Euro (€).

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss under 'Net foreign exchange gains / losses' line. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income,
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective, and
- qualifying cash flow hedges to the extent that the hedge is effective.

2.6. Employee benefits

The Bank and its employees contribute to the Government Social Insurance Fund based on the employees' salaries. The Bank's contributions are expensed as incurred and are included under 'Staff costs' line.

The Bank operates a defined contribution scheme, which provides for employer contributions of 6% on the employee gross salary and employee contributions within a range of 4%-10% of their gross salary. The Bank has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employee benefits relating to employee service in the current period. This scheme is in the form of a pension plan under Ancoria Insurance Public Ltd, an indirect shareholder of the Bank.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2. Significant accounting policies (continued)

2.7. Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax also includes withholding tax on dividends.

Tax on income is provided in accordance with the fiscal regulations and rates enacted or substantively enacted at every reporting date 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 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 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 substantively enacted by the reporting date.

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.

<u>Indirect Tax Value Added Tax (‘VAT’)</u>

Expenses and assets are recognised net of the amount of VAT, except:

- 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.
- 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 other assets or other liabilities in the statement of financial position.

VAT is not accounted as income tax.

<u>Special Tax Levy</u>

According to the ‘Special Levy on Credit Institutions Law of 2011 to 2017’, special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31 December of the previous year for the quarter ending on 31 March, on 31 March of the same year for the quarter ending on 30 June, on 30 June of the same year for the quarter ending on 30 September and on 30 September of the same year for the quarter ending on 31 December. Based on an amendment to the Law effective as from 6 October 2017, an amount corresponding to the annual contribution of each credit institution to the Resolution Fund or to the Single Resolution Fund as the case may be, is deducted from the balance of special levy payable, up to the maximum amount of special levy for the same year.

2. Significant accounting policies (continued)

2.7. Tax (continued)

Special tax levy on deposits is recognised in profit or loss under ‘Other operating expenses’ line.

Based on an amendment to the Law, as from 1 January 2015, 35/60 of the funds received were deposited to the Recapitalisation Fund incorporated pursuant to the Law 190(I) 2015. As from 1 January 2018 and for every subsequent year, 35/60 of the special levy paid in accordance with the Law, will be transferred to the Recapitalisation Fund within 45 days of their deposit in the Government General Account and the remaining 25/60 will remain in that account. All transfers to the Recapitalisation Fund will cease upon accumulation of a total amount of €175 million in that Fund.

2.8. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, non-obligatory balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.9. Financial instruments

Initial recognition

A financial asset or liability is initially recognised when the Bank becomes a party to the contractual provisions of the instrument.

Classification and measurement

A financial asset is classified as measured at either amortised cost, fair value through other comprehensive income (‘FVOCI’) – debt investment, FVOCI – equity investment or fair value through profit or loss (‘FVTPL’). All financial assets are classified based on the business model for managing those assets and their contractual terms. The Bank may designate though financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’),
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

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 profit or loss under 'Net foreign exchange gains / losses' line in the case of currency derivatives and under 'Fair value gain / loss on revaluation of financial assets' line in the case of all other derivatives.

Interest income and expense are recognised under their corresponding headings in profit or loss.

Derivatives embedded in financial liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host contract are carried at fair value under the trading portfolio with changes in fair value recognized in profit or loss under 'Fair value gain / loss on revaluation of financial assets' line.

Non-derivative financial instruments

Financial instruments measured at amortised cost (policy applicable since 1 January 2018)

Amortised cost is calculated by taking into account any fees that are an integral part of the effective interest rate. The amortisation is included under 'Interest income' line and any losses arising from impairment are recognised in profit or loss under 'Loss allowance' line.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

These financial assets are measured at amortised cost using the EIR method less allowances for expected credit losses which are recognised in profit or loss under 'Loss allowance' line.

Financial instruments measured at FVOCI (policy applicable since 1 January 2018)

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with unrealised gains and losses recognised in other comprehensive income. Upon derecognition, any accumulated balances in other comprehensive income are reclassified to profit or loss. The interest income, foreign exchange differences and expected credit losses are recognised in profit or loss under the respective lines.

An equity instrument is measured at FVOCI if it is not held for trading and the Bank has irrevocably elected to present subsequent changes in the investment's fair value in other comprehensive income when it meets the definition of equity under IAS 32 *Financial Instruments: Presentation*. This election is made on an investment-by-investment basis. Fair value gains or losses on these equity instruments are recognised in other comprehensive income and are not recycled to profit or loss upon derecognition but are transferred directly to retained earnings. Equity instruments at FVOCI are not subject to an impairment assessment.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Financial instruments measured at FVTPL

Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. This includes all derivative financial assets.

On initial recognition, the Bank may irrevocably designate a debt instrument that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets managed on a fair value basis and those that are held for trading are measured at fair value through profit and loss. These include financial assets acquired principally for trading, equity instruments (for which no election was made to present gains or losses in other comprehensive income), assets mandatorily measured on a fair value basis and derivatives, except to the extent that they are designated in a hedging relationship, in which case the Bank elected as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss under 'Fair value gain / loss on revaluation of financial assets' line.

Financial assets – Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the financial assets are managed together to achieve a particular business objective and information is provided to management. The Bank's business model assessment determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The information considered when performing the business model assessment includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets,
- how the performance of the business model (and the financial assets held within the business model) is evaluated and reported to the Bank's management,
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed,
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected, and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

When an entity changes its business model for managing financial assets, it reclassifies all affected financial assets. If an entity reclassifies financial assets, it applies the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the entity reclassifying financial assets. The entity does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

There were no reclassifications of the Bank's financial assets during the current year or previous reporting periods.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

On transition to IFRS 9, business models were determined on the date of initial application based on facts and circumstances that existed on 1 January 2018 and re-assessed at each reporting date.

Financial assets – Assessment whether contractual cash flows are SPPI

The Bank assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and 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 the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument upon initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows,
- interest rates which are beyond the control of the Bank or variable interest rate consideration,
- features that could modify the time value of money,
- prepayment and extension features,
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features), and
- convertible features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

On transition to IFRS 9, all financial assets were assessed as to whether their contractual cash flows represented SPPI on the date of initial application based on facts and circumstances that existed upon initial recognition.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Financial assets – Summary of subsequent measurement and gains and losses recognition

Category	Measured at	Gains & losses recognised under
Financial assets at FVTPL	Fair value	Profit or loss ▪ Interest income and dividend income ▪ Gains or losses on re-measurement to fair value Other comprehensive income and accumulated to hedge reserve ▪ Gains or losses for derivatives designated as hedging instruments
Financial assets at amortised cost	Amortised cost using EIR method (reduced by impairment losses)	Profit or loss ▪ Interest income, foreign exchange gains or losses and impairment ▪ Gains or losses on derecognition
Debt investments at FVOCI	Fair value	Profit or loss ▪ Interest income, foreign exchange gains or losses and impairment ▪ Gains or losses on derecognition, including transfers from revaluation reserve Other comprehensive income ▪ Gains or losses on re-measurement to fair value
Equity investments at FVOCI	Fair value	Profit or loss ▪ Dividend income, unless such represents recovery of part of cost of investment Other comprehensive income ▪ Gains or losses on re-measurement to fair value Retained earnings ▪ Gains or losses on derecognition (never reclassified to profit or loss)

Financial liabilities

Financial liabilities refer mainly to customer deposits, other borrowings and funding from other banks. Financial liabilities are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is net of directly attributable transaction costs incurred. Subsequent measurement of such financial liabilities is at amortised cost using the EIR method. The corresponding interest expense is recognised in profit or loss under 'Interest expense' line.

Other financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is held for trading, it is a derivative or the Bank has irrevocably elected to designate it as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Netting and derecognition of financial assets and liabilities

Derecognition of financial assets

The basic premise for the derecognition model in IFRS 9, being carried over from IAS 39, is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety, or
- specifically identified cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

An asset is transferred if either the Bank has transferred the contractual rights to receive the cash flows, or the Bank has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- the Bank has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- the Bank is prohibited from selling or pledging the original asset (other than as security to the eventual recipient), and
- the Bank has an obligation to remit those cash flows without material delay.

Once the Bank has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

If the Bank has neither retained nor transferred substantially all of the risks and rewards of the asset, then it must assess whether it has relinquished control of the asset or not. If the Bank does not control the asset then derecognition is appropriate, however, if the Bank has retained control of the asset, it continues to recognise the asset to the extent to which it has a continuing involvement in the asset.

No financial assets have been transferred or derecognised during the current year or previous reporting periods.

Forborne and modified financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

When a financial asset is modified the Bank assesses whether this modification results in derecognition. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers both qualitative as well as quantitative factors.

In the case where the financial asset is derecognised, the loss allowance for is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month expected credit loss ('ECL') except in the rare occasions where the new loan is considered to be originated credit-impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition.

Where a modification does not lead to derecognition the Bank calculates the modification gain or loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Thereafter, the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVOCI, where the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

The Bank accounts for a substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. When there is a non-substantial modification, the Bank recognizes a gain or loss in the profit or loss. The modification gain or loss is equal to the difference between the present value of the cash flows under the original and modified terms discounted at the original EIR. At the point of modification, the carrying amount of the financial liability is revised to reflect the new cash flows discounted by the original EIR.

Netting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Impairment (policy applicable since 1 January 2018, date of adoption of IFRS 9)

IFRS 9 has fundamentally changed the loan loss impairment methodology applied by the Bank. The standard has replaced IAS 39's incurred loss approach with a forward-looking expected credit loss ('ECL') approach. The Bank is required to record an allowance for expected losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination or the asset is considered credit-impaired or defaulted, in which case, the allowance is based on the probability of default over the life of the asset.

ECL is the product of probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD').

- PD represents the probability a credit facility defaults over a given period and is calculated based on its credit score as well as forecasted security specific and macroeconomic inputs.
- LGD is calculated after taking into consideration tangible collaterals and applicable haircuts as well as available cash balances and recovery rates.
- EAD for on-balance sheet exposures is the outstanding balance and any accrued interest. For off-balance sheet exposures, the amount is weighted by the applicable credit conversion factor in accordance with the Capital Requirement Regulation 575/2013 ('CRR') / Capital Requirement Directive IV ('CRD IV') classification.

To calculate lifetime ECL, the Bank estimates the risk of a default occurring on the financial instrument during its remaining life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between the contractual cash flows that are due to the Bank under the contract and the cash flows that the Bank expects to receive, both discounted at the EIR of the loan.

For overdraft facilities, the Bank measures 12-month ECL, as such facilities are reviewed on an annual basis according to internal procedure and, based on this review, the Bank has the right to reduce the limit of the exposure accordingly.

For financial guarantee contracts, a credit conversion factor in accordance with CRR / CRD IV classification is applied to determine exposure at default for the off-balance sheet amounts when estimating ECLs.

When estimating lifetime ECLs for undrawn loan commitments, the Bank:

- Estimates the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment in accordance with the loan commitment's contractual arrangements, and
- Calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

The Bank groups its financial instruments into Stage 1, 2 and 3 as well as Purchased or Originated Credit Impaired ('POCI') exposures based on the applied impairment methodology, as described below:

- **Stage 1 – Performing exposures**

  Exposures for which the credit risk has not increased significantly since initial recognition, a 12-month ECL is recognised, unless the financial asset is purchased or originated credit-impaired. All Stage 1 facilities are measured under a collective basis (refer to Note 14 for specific parameters that apply with respect to certain shareholders, members of the Board of Directors, senior management of the Bank and their connected persons). The collective portfolio is segmented into exposures to individuals and exposures to business and then according to internal credit rating bands.

- **Stage 2 – Underperforming exposures**

  Exposures for which the credit risk has increased significantly since initial recognition, a lifetime ECL is recognised that can be significantly higher than a 12-month ECL.

- **Stage 3 – Impaired exposures**

  Exposures which are considered to be credit-impaired (refer to section below on the definition of credit-impaired debt financial assets) and a lifetime ECL is recognised. All facilities under Stage 3 are assessed for impairment on an individual basis. Interest income is recognised on the amortised cost of the loan net of allowances.

- **Purchased or Originated Credit Impaired exposures**

  Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses. On initial recognition POCI assets do not carry an impairment allowance as lifetime ECLs are incorporated into the calculation of the effective interest rate. On subsequent measurement, the ECLs for POCI assets are always measured at an amount equal to lifetime ECLs. The amount recognised as a loss allowance for these assets is equal to the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment loss.

Forborne exposures are debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments ("financial difficulties"). The definition of forborne exposures is in accordance with the provisions of Commission Implementing Regulation (EU) 2015/227 of 9 January 2015.

No exposures were classified as POCI or forborne during the current year or previous reporting periods.

The Bank considers as credit-impaired debt financial assets which fall within the definition of defaulted. The Bank considers as defaulted debt financial assets which satisfy any of the following:

- Material exposures as set by Central Bank of Cyprus ('CBC') are more than 90 days past due;
- The borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or number of days past due;
- The facility is considered as non-performing according to reporting rules of European Banking Authority's ('EBA') technical standards on supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013.

An exposure ceases to be treated as defaulted if none of the entry criteria are met, the relevant probation periods have elapsed and all exit criteria are met as per the EBA's Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 and the EBA's Guidelines on management of non-performing and forborne exposures.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

A borrower is assessed as unlikely to meet its credit obligations if any of the following hold:

- A borrower has sought or has been placed under bankruptcy either by the Bank or an external party;
- The Bank consents to a distressed restructuring of the credit facility where it is likely to result in a reduced obligation by the borrower caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees. Material forgiveness is defined as forgiveness of 20% or more of total outstanding amounts, including principal, interest or fees.
- Based on guidance provided during review of a borrower, the Bank has assessed the borrower as Unlikely to Pay ('UTP')

Factors the Bank considers in determining what is a significant increase in credit risk include the following:

- Material exposure as set by the CBC is more than 30 days past due at reference date;
- Change in the risk of default occurring over the remaining life of the financial instrument has increased significantly and above a specific risk of default threshold, e.g. probability of default more than doubled and the new credit score is 6 or higher;
- Forborne loans.

The Bank reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such a case, financial assets are written-off either partially or in full. A write-off may refer to both contractual and non-contractual write-off. Write-offs and partial write-offs represent derecognition / partial derecognition events. If the amount of write-offs 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 recognised in profit or loss under 'Loss allowance' line.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering both the change in the internal credit score of the borrower and the difference between the revised and initial risk of default. As the Bank's credit score ranges from 1 to 10, a threshold of a credit score 6 is considered adequate for assuming a significant change. In addition, according to the translation of credit score to probability of default, an increase in default probability of more than 100% is considered a significant change assuming that the new credit score is 6 or higher. The following table provides a demonstration:

	Increase in PD from Credit Score transition (x times)								
Credit Score	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1									
2	16								
3	180	11							
4	711	43	4						
5	1,045	64	6	2					
6	2,100	128	12	3	2				
7	2,866	174	16	4	3	1			
8	4,151	253	23	6	4	2	1		
9	5,752	350	32	8	6	3	2	1	
10	8,999	548	50	13	9	4	3	2	2

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

If a customer moves from credit score 3 to credit score 6, the probability of default for his obligations increases from 0.82% to 9.53% which is translated into an increase of 12 times as indicated in the above table. Since the new credit score is higher than 6, then a significant increase in credit risk is observed and the obligations of the customer are re-classified under Stage 2.

The table below provides the probability of default for each credit score.

Credit Score	Probability of Default
1	0,00%
2	0,07%
3	0,82%
4	3,23%
5	4,74%
6	9,53%
7	13,01%
8	18,85%
9	26,11%
10	40,85%

For facilities which are classified under the “very low” risk band, the credit scores are calculated at inception and biennially thereafter. For the remaining facilities, the credit scores are calculated at inception and annually thereafter. Credit score methodology is the same both at application stage and throughout the lifetime of the facility.

Debt instruments measured at fair value through other comprehensive income

The Bank records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as mentioned above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities, the Bank applies a policy which assesses whether the credit risk on the instrument has not increased significantly since initial recognition and calculates 12-month ECL. All debt securities under this category have been assessed as of low risk. Such instruments generally include traded, investment grade securities where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Forward-looking information

The Bank incorporates forward-looking information in the measurement of ECLs.

The Bank considers forward-looking information such as macroeconomic factors (e.g. unemployment, GDP growth, house prices) and economic forecasts. Such macroeconomic factors are included in lifetime PD estimation, as well as, LGD calculation (both 12-month and lifetime). To evaluate a range of possible outcomes, the Bank formulates three scenarios: a base case, a pessimistic case and an optimistic case. The base case scenario represents the more likely outcome resulting from the Bank’s normal financial planning and budgeting process. Since the effort is to provide plausible scenarios, the optimistic and pessimistic scenarios represent slight variations of the base case. For each scenario, the Bank derives an ECL and applies a probability weighted approach to determine the impairment allowance.

As forecasts are usually limited to a maximum of three years, the Bank uses the assumption of cyclicality to extend projections until the maturity of facilities.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

The Bank uses published external information from government and private economic forecasting services to maintain independent input of information and assume cyclicality for the remaining maturity where forecasts are not available.

Hedge accounting

The Bank 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 Bank uses also non-derivative financial liabilities. The Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Bank 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 Bank'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.

Per IAS 39, 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 Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit or loss.

IFRS 9 permits as a policy choice to continue to apply hedge accounting in accordance with IAS 39. Otherwise, hedge effectiveness under IFRS 9 is assessed on a qualitative, forward-looking approach which requires the hedge to satisfy the following:

- Economic relationship exists
- Credit risk does not dominate value changes
- Designated hedge ratio is consistent with risk management strategy

The Bank has elected as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

For the years ended 31 December 2020 and 2019, the Bank did not have any instances that deemed essential the application of hedge accounting.

2.10. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets as applicable) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ('CGUs'). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

2. Significant accounting policies (continued)

2.10. Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

2.11. Property and equipment

Freehold land and buildings

Owner-occupied property is property held by the Bank for use in the supply of services or for administrative purposes. The Bank has elected to apply the revaluation model under IAS 16 Property, Plant and Equipment with respect to owner–occupied property. Such property is initially recognised at cost and subsequently measured at fair value less accumulated depreciation and impairment. Valuations are carried out periodically between 3 to 5 years, depending on the property, by independent qualified valuators.

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. Useful lives are in the range of 33 to 67 years (or 1,5% to 3,0% depreciation per annum). Freehold land is not depreciated.

On disposal of freehold land and buildings, the respective balance recognised under the relevant revaluation reserve is transferred to retained earnings.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on this re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

Leasehold property

The cost of adapting / improving leasehold property is amortised on a straight-line basis over 5 to 10 years (or 10% to 20% depreciation per annum) or over the period of the lease if this does not exceed 10 years. Residual value is assumed to be nil.

Furniture and fittings

Furniture and fittings are measured at cost less accumulated depreciation. Depreciation of furniture and fittings is calculated on a straight-line basis over their estimated useful life of 5 to 10 years (or 10% to 20% depreciation per annum).

Computer hardware, security and operating systems and other equipment

Computer hardware, systems and equipment are measured at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over their estimated useful life of 5 to 10 years (or 10% to 20% depreciation per annum).

Impairment

Impairment considerations with respect to property and equipment, including right-of-use assets, are presented in Note 2.10.

2. Significant accounting policies (continued)

2.12. Intangible assets

Intangible assets consist of computer software and licences relating to usage of such software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

For intangible assets under development, the amortisation charge is only applied upon the completion of the assets and their availability to use.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in profit or loss as incurred.

Amortisation is calculated on a straight-line basis over the estimated useful life of the assets which is 3 to 6 years for computer software (or 16,67% to 33% depreciation per annum). Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets are reviewed for impairment when events relating to changes to 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.

<u>Internally-generated intangible assets</u>

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.13. Leases

<u>Policy applicable as of 1 January 2019</u>

The Bank accounts for leases in accordance with IFRS 16. The Bank applies IFRS 16 on a modified retrospective basis without restating prior years and electing for certain exemptions on transition. On transition, the right-of-use assets were measured as if the standard had been applied since the commencement date, but using the incremental borrowing rate at the date of initial application.

2. Significant accounting policies (continued)

2.13. Leases (continued)

The Bank has elected not to recognise right-of-use assets and liabilities for leases where the total lease term is less than 12 months, or for leases of low-value assets. The payments for such leases are recognised in the profit or loss on a straight-line basis over the lease term. The Bank has also elected as a policy choice permitted under IFRS 16 not to apply this standard to leases over intangible assets and instead account for such arrangements as service contracts.

At inception, the Bank assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset and whether the Bank has the right to direct the use of the asset. For contracts which include both lease and non-lease components, the Bank has elected to apply the practical expedient to ignore the requirement to separate non-lease components (such as services) from the lease components.

The Bank recognises a right-of-use asset and a lease liability at the commencement of the lease. The lease liability is initially measured at the present value of the remaining lease payments at that date. These include fixed payments, less any lease incentives receivable, variable payments depending on a rate or an index and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease. If the interest rate implicit in the lease contract is not available, the Bank's incremental borrowing rate is used instead. The lease term determined by the Bank comprises of the non-cancellable period of lease contracts and periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option or periods covered by an option to terminate the lease if the Bank is reasonably certain that will not exercise that option.

The lease liability is subsequently carried at amortised cost, increased by interest expense and reduced by the lease payments. The Bank remeasures the lease liability (and performs a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances,
- The lease payments change, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

Lease liabilities are presented under 'Lease liabilities' in the statement of financial position.

Right-of-use assets are initially measured at cost, which comprises of:

- the amount of the initial measurement of the lease liability,
- any lease payment made at or before the commencement date, less any lease incentives,
- any initial direct costs incurred, and
- an estimate of costs to be incurred in dismantling and removing the underlying assets or restoring the site on which the assets are located.

Subsequently, right-of-use assets are measured at cost less accumulated depreciation. Depreciation of right-of-use assets is calculated on a straight-line basis over their lease term.

2. Significant accounting policies (continued)

2.13. Leases (continued)

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Right-of-use assets are presented as a separate category under ‘Property and equipment’ in the statement of financial position.

2.14. Provisions

Provisions for any claims against the Bank are calculated and recognised when:

- there is a present obligation (legal or constructive) arising from past events,
- the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and
- a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.15. Financial guarantees and loan commitments

The Bank issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value and presented on the statement of financial position under ‘Provisions and other liabilities’. Subsequently, the Bank’s liability under each guarantee is measured at the higher of:

a) The amount initially recognized reduced by the cumulative amortised premium which is periodically recognised in profit or loss under ‘Fee and commission income’ line in accordance with the terms of the guarantee, and

b) The amount of ECL allowance.

ECL allowances resulting from financial guarantees are recorded in profit or loss under ‘Loss allowance’ line. The balance of the liability for financial guarantees that remains is recognised under ‘Fee and commission income’ line in profit or loss when the guarantee is fulfilled, cancelled or expired.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in scope of the ECL requirements. Corresponding ECL allowances are presented under ‘Provisions and other liabilities’ on the statement of financial position.

2.16. Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 *Income Taxes*.

Any difference between the issue price of share capital and the nominal value is recognised as share premium.

2. Significant accounting policies (continued)

2.17. Related party transactions and disclosures

The Bank applies IAS 24 *Related Party Disclosures* with respect to the identification, as well as, disclosure and reporting considerations concerning related party transactions and events. To facilitate the application of principles within IAS 24, specific criteria and guidelines are taken into consideration.

A related party is a person or entity that is related to the Bank in the following circumstances and conditions:

A) A person or a close member of that person's family is related to the Bank if that person:

- has control or joint control over the Bank, or
- has significant influence over the Bank, or
- is a member of the key management personnel of the Bank or of the parent company of the Bank.

B) An entity is related to the Bank if any of the following conditions applies:

- the entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others),
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
- both entities are joint ventures of the same third party,
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity,
- the entity is a post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank,
- the entity is controlled or jointly controlled by a person identified under A),
- a person identified as having control or joint control over the Bank has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity), or
- the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent company of the Bank.

The Bank has adopted the following definition with regards to 'key management personnel':

- Members of the Board of Directors,
- Persons owning directly or indirectly equal or more than 25% of the Bank's share capital, and
- Persons that have the authority to legally bind the Bank on an individual basis.

The following are deemed not to be related:

- two entities simply because they have a director or key manager in common.
- two venturers who share joint control over a joint venture.
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the Bank, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence.

2. Significant accounting policies (continued)

2.17. Related party transactions and disclosures (continued)

As a result, the following are considered related parties to the Bank:

- Parent and entities with joint control or significant influence,
- Subsidiaries and other entities of the same group,
- Associates and joint ventures,
- Key management personnel,
- Spouses of key management personnel,
- Children of key management personnel,
- Legal entities which key management personnel are directors to, and
- Legal entities to which key management personnel have direct or indirect shareholding of equal or more than 25%.

Definition of related parties in respect of legal entities ends at the legal entity level and ignores any directors or shareholders of that legal entity.

2.18. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Bank 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 observable market data.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

2. Significant accounting policies (continued)

2.18. Fair value measurement (continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

2.19. Comparatives

Comparatives presented in the financial statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

Specifically, the comparatives concerning year 2019, have been adjusted by certain reclassifications, in the following respects:

	Revised	Previously reported
	€	€
Statement of Cash Flows		
Proceeds on disposal of investments at amortised cost	9.325.000	9.976.213
Interest received from debt securities	404.263	-
Note 31 Net cash flow from operating activities		
Amortisation of premiums / discounts	(101.559)	(348.509)
	9.627.704	**9.627.704**

The aforementioned reclassifications did not have any impact on the rest of the primary statements or notes to the financial statements of the Bank. The reclassifications have been performed to better reflect the interest received on debt securities and amortisation of related premiums and discounts on such investments.

3. Significant accounting estimates and judgments

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Going concern

The financial statements for the year ended 31 December 2020 have been prepared on the going concern basis.

For the purposes of this principle, the Bank has taken into account the current economic developments and made estimates for the development of the economic environment in which it operates for the near future. The main factors creating uncertainties regarding the application of this principle relate to the economic environment in Cyprus, the high percentage of non-performing loans that continue to exist in the banking system of Cyprus and the impact of the coronavirus (‘COVID-19’).

3. Significant accounting estimates and judgments (continued)

3.1. Going concern (continued)

During the preparation of the financial statements for the year ended 31 December 2020, the Bank's management took into account the following factors:

- **Capital adequacy**

  The Bank's total capital ratio at 31 December 2020 was at 18,82%, whilst the Total Capital Ratio requirement including SREP was 15% without Pillar 2 Capital Guidance and 15,5% with Pillar 2 Capital Guidance. Regarding the impact of the implementation of IFRS 9, the Bank has not made use of the transitional provisions, as the impact on its capital was not assessed as significant.

- **Liquidity**

  In 2020, the Bank increased its customer deposits by €72 million at reduced interest rates. The Bank is also participating under the Targeted Longer-Term Refinancing Operations ('TLTRO III') for funding from the European Central Bank under the Eurosystem monetary policy operations.

- **Cyprus economy and banking environment**

  Following 5 consecutive years of reported growth, Cyprus' economy declined by 5.1% in 2020 according to the Cyprus Statistical Service. The decline was primarily driven by trade and tourism, construction, manufacturing and entertainment services sectors, to a great extent due to the long-term suspension of many business operations as a result of efforts made at limiting the spread of COVID-19. A large shrinkage of GDP occurred in the second quarter of 2020, time at which the pandemic first appeared, dropping by 13.9%, while the third and fourth quarters showed some recovery, limiting GDP losses to approximately 6.4% according to the International Monetary Fund.

  Despite the estimate of an increase in unemployment, the index remained relatively stable. Measures taken by the Cyprus Government to support businesses and workers by providing a wide range of allowances were successful in keeping the index low. As a result, the unemployment rate increased modestly to 7.6% in 2020 according to Eurostat, from 7.1% in 2019, while the European Union's corresponding index was at 8.9%.

  Consumer prices declined by 0.6% on average in 2020, partly due to the hit sustained by domestic demand caused by the COVID-19 pandemic and the cut to the VAT rate for the tourism and hospitality sector. The current fiscal and monetary stimulus have not led to higher prices and inflation is likely to rise only modestly in the second half of 2021 as economic activity accelerates and the temporary reduction in the VAT income is reversed. Specifically, inflation for 2020 is expected to be in the order of -0.6% and is estimated to reach 1% by 2021.

  The Cyprus Government's fiscal package in 2020 in response to the COVID-19 pandemic was at approximately 4.5% of GDP and included income support for households, wage subsidies for businesses and grants to small businesses and self-employed individuals. Additionally, a loan moratorium for interest and principal repayments on loans to individuals and businesses was introduced until the end of 2020. In January 2021, a second moratorium for the period until 30 June 2021 was launched for borrowers impacted by the second lockdown. Furthermore, an interest rate subsidisation scheme for new housing and business loans was put in place in 2020 for loans granted as of 1 March 2020 until 31 December 2020 subject to conditions, which was later extended to 31 December 2021 with eligible amounts increased considerably, especially for businesses and self-employed individuals.

3. Significant accounting estimates and judgments (continued)

3.1. Going concern (continued)

As a result, public finances deteriorated noticeably in 2020. According to the Cyprus Statistical Service, it is estimated that the budget deficit deteriorated from a surplus of 1.5% of GDP in 2019 to a deficit of 5% of GDP in 2020. Given the additional support to the economy that the Cyprus Government has committed to provide as a response to the second wave of the pandemic, the trend of lower revenues and higher spending is expected to continue through the first half of 2021 at least. The budget position is expected to improve and the deficit to gradually shrink in the medium term as the economy recovers and spending is increased.

Public debt currently amounts to €24.8 billion, or 119.5% of GDP. However, this is seen as temporary driven by fiscal measures to mitigate the effects of COVID-19. The underlying fundamentals remain strong and the downward trajectory is expected to resume as growth returns.

According to the European Commission's forecast, the real GDP of Cyprus' economy will grow by 3.2% in 2021, despite the losses it sustained in 2020 due to the pandemic. This is mainly because the restrictive measures in the economy concern a smaller proportion of economic activity and are now more targeted. Tourism, which has contracted by 85% in 2020, is expected to be one of the main factors in the recovery of the economy in 2021. The initiation of vaccinations both at local level and in the main countries of tourism origin such as the United Kingdom, Israel and Russia are expected to cover much of the losses incurred in 2020. At the same time, the vaccination plan at local level is expected to allow for an increase in business activity with private consumption as the main driver. In 2022 it is estimated that real GDP will be in the order of 3.1%, reaching pre-pandemic levels 2022.

In order to deal with the consequences of the pandemic, the Cyprus Government is expected to receive significant monetary backing from the European Union through a number of schemes in the form of grants, lending and financial support through the SURE programme aimed to support job retaining. Specifically, Cyprus is expected to benefit from the European Union's €750 billion Next Generation funds. On a net basis, Cyprus expects to obtain grants of up to €1.1 billion or about 5% of GDP, in the budget period 2021-2027, which are, however, subject to the implementation of long-delayed structural reforms in the judiciary and public administration sectors.

The Cyprus sovereign is rated by international rating agency Standard & Poor's as BBB- with a stable outlook since September 2018. The rating and outlook were affirmed in March and September 2020 and March 2021. Similarly, Fitch maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020 and March 2021. Finally, Moody's maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. More recently in January 2021, Moody's issued a revised credit opinion on the Cyprus sovereign, maintaining the positive rating outlook.

The risks that Cyprus' economy is expected to face in 2021 are directly related to the progress of the pandemic's containment. The vaccination programme at both local and global level is a key factor to enable uninterrupted business activity. Cyprus is expected to receive the first tourist surge by the end of the second quarter of 2021, leading to the restart of tourism industry's operations.

The abolishment of the Cyprus Investment Programme ('CIP') at the end of 2020, which was one of the pillars of construction development over the years post the 2013 crisis, may impact negatively on GDP projections. Similarly, the United Kingdom's full withdrawal from the European Union at the end of 2020 may affect the economic activities between the two countries, especially in relation to trading and tourism.

Actions at European level to overhaul the tax system in Europe may also adversely impact the favourable tax regime of Cyprus, while developments at the political level may affect the economic climate accordingly.

3. Significant accounting estimates and judgments (continued)

3.1. Going concern (continued)

Despite the COVID-19 pandemic and the low to zero interest rates offered, in some cases even negative rates imposed, the banking system still maintains significant excess liquidity indicative of its credibility and level of confidence by depositors.

Banks are continuing their deleveraging efforts, resulting in a reduction of lending volumes in the banking system. The main reasons for the decrease are:

- the sales of loans to non-performing loan management companies
- the management of non-performing loans by specialised companies in this area
- the intensive efforts of banks to settle non-performing loans primarily through debt-asset swaps

As a result of these actions, the non-performing exposures index fell to 19% compared to 45% 3 years ago. Despite the decline in non-performing loans, the challenges of the banking system remain as high levels of non-performing loans and private debt persist. Additionally, excess liquidity in a negative interest rate environment continues to have an adverse impact on banks' profitability.

Furthermore, the gradual implementation by 2025 of the new European requirements to meet the Minimum Requirement for Own Funds and Eligible Liabilities (‘MREL’) is expected to have an impact on banks' future strategic plans.

When deciding upon the Bank's ability to operate as going concern, the management has taken into account the following:

- the Bank's capital adequacy as at 31 December 2020
- the Bank’s significant liquidity levels and their monitoring on a daily basis
- the Bank's access to liquidity through the Central Bank of Cyprus
- the measures taken by the European Central Bank to ensure that banks can continue to fulfil their role in financing the economy
- the measures taken by the Cyprus Government to support the economy from the effects of COVID-19
- the decisions of the euro area countries to take a series of fiscal and other measures to stimulate the economy, as well as, the decisions of the supervisory authorities to provide liquidity and support capital adequacy
- the measures taken by the Bank to protect employees and customers, to implement actions under the Business Continuity Plan and to enable the possibility of distance work on a large scale, ensuring uninterrupted performance of critical and other functions

3.2. Loss allowance on loans and advances to customers

The Bank reviews loans and advances to assess whether a loss allowance should be recorded in profit or loss.

For individually significant assets, loss allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account. The level of the loss allowance is the difference between the value of the expected future cash flows discounted at the loan’s original effective interest rate and its carrying amount. Subjective judgements are made in the calculation of future cash flows.

Furthermore, judgements change with time as new information becomes available, resulting in revisions to the loss allowance. Changes in these estimates would result in a change in the allowances and have a direct impact on the loss allowance charge.

3. Significant accounting estimates and judgments (continued)

3.2. Loss allowance on loans and advances to customers (continued)

In addition to loss allowances on an individual basis, the Bank also calculates loss allowances on a collective basis through the assignment of probabilities of default and loss given default for portfolios of loans with similar credit risk characteristics. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis due to the large number of loans in each portfolio. Furthermore, the absence of historical loss experience increases estimation uncertainty.

For 12-month probabilities of default, credit score values are translated to probabilities of default using logistic distribution maps adding an adjustment factor.

For lifetime probabilities of default, the Bank uses as a basis the 12-month probabilities of default as follows:

- **Inherent default probability**

  For each credit score value, the Bank uses a conditional probability formula to extend probabilities and reflect the state relative to the loan maturity. This is assumed as the ‘inherent’ default probability. As credit score value changes across maturity, the inherent lifetime probability of default will adjust accordingly.

- **Macro-factor and other adjustments**

  The Bank adjusts inherent cumulative lifetime probabilities to influencing macro-factors and vested interest factors, such as the Loan-to-Value of the credit facility, the unemployment rate and GDP of Cyprus. The vested interest factor assumes that as the facility approaches maturity, the borrower has less incentive to default. This factor is assumed to be pro-rata per year approaching maturity.

The Bank uses the below macroeconomic factors, specifically the projections as these have been published by the Central Bank of Cyprus for the years 2021-2023, using the assumption of cyclicality to extend projections until the maturity of facilities:

- **Unemployment rate**

  Annual percentage fluctuations of the standardised unemployment rate for all ages and genders as available through Eurostat.

- **Gross Domestic Product**

  Seasonally-adjusted last quarter annual growth rates as published by CyStat.

- **Property price index**

  Annual percentage fluctuations of the Central Bank of Cyprus’ national residential and commercial index.

The Bank uses the Central Bank of Cyprus, European Systemic Risk Board and Ministry of Finance as the main sources for the forecasted values of the above macro-factors.

Where forecasts for the same macroeconomic factor are available by more than one source of the ones outlined above, the Bank uses more severe projections to its pessimistic scenario as described below. As forecasts are usually limited to a maximum of three years, the Bank applies the assumption of cyclicality to extend projections until the maturity of facilities.

3. Significant accounting estimates and judgments (continued)

3.2. Loss allowance on loans and advances to customers (continued)

The Bank uses three scenarios for its projections:

- **Optimistic**

  Takes the neutral projection and adds or subtracts 1% according to macroeconomic factor. For example, a 1% increase in property prices and GDP is considered optimistic, while a 1% decrease in unemployment is considered optimistic. Additionally, the credit score of borrowers is decreased by 1.

- **Baseline**

  Takes the historical index and projects accordingly.

- **Pessimistic**

  Takes the neutral projection and adds or subtracts 1% according to macroeconomic factor. For example, a 1% decrease in property prices and GDP is considered pessimistic, while a 1% increase in unemployment is considered pessimistic. Additionally, the credit score of borrowers is increased by 1.

Due to the COVID-19 impact and for prudency purposes, the Bank has applied a 40% weight on the Pessimistic scenario and a 30% weight on both the Baseline and Optimistic scenarios.

In the absence of adequate historical internal data, the Bank has used academic papers in order to determine macroeconomic factors influencing probabilities of default and made adjustments to coefficients according to external data availability and local market observations where relevant and applicable.

The methodology and the assumptions used in calculating loss allowances are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances (Note 14).

COVID-19 impact

The situation surrounding COVID-19 changes drastically on a daily basis and many parameters that affect both Cyprus' and global economies are still unknown as to their extent and impact.

To this effect, the European Banking Authority has issued guidance to banking institutions on the impact of COVID-19 measures and their impact on banks' operations, namely through the publication of the 'Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis' and the 'Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis'.

The table below presents the Bank's outstanding credit exposures that were under the first legislative moratorium announced by the Cyprus Government in March 2020 classified per applicable stage as at 31 December 2020:

	Gross Outstanding Amount			
	Stage 1	Stage 2	Stage 3	**Total**
Households	64.412.696	1.708.962	-	**66.121.658**
Non-Financial Corporations	58.587.874	8.221.915	-	**66.809.789**
Total	**123.000.570**	**9.930.877**	**-**	**132.931.447**

Furthermore, and due to the adverse and prolonged effect the COVID-19 pandemic had on Cyprus' economy, an interest rate subsidisation scheme for new housing and business loans was put in place in 2020 for loans granted as of 1 March 2020 until 31 December 2020 subject to conditions, which was later extended to 31 December 2021 with eligible amounts increased considerably, especially for businesses and self-employed individuals.

3. Significant accounting estimates and judgments (continued)

3.2. Loss allowance on loans and advances to customers (continued)

Even though no scenarios related to the outbreak have been constructed as a result of this uncertainly, for prudency purposes, an increased weight of 40% has been placed on the Pessimistic scenario and a 30% weight on both the Baseline and Optimistic scenarios. Once the impact of COVID-19 can be assessed with more accuracy, the scenarios will be revisited and updated accordingly.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although the Bank uses latest available data wherever possible and available, models used to calculate ECLs may also include data that are not current, for which adjustments will be made for significant events occurring prior to the reporting date.

3.3. Tax

The Bank is subject to Cyprus income tax. Significant estimates are required in determining the provision for taxes at the reporting date, and therefore the tax determination is uncertain. Where the final tax is different from the amounts that were initially recorded, such differences will affect the income tax expense, the tax liabilities and deferred tax liabilities of the period in which the final tax is agreed with the tax authorities.

The Bank recognises a deferred tax asset in relation to tax losses, to the extent there may be future taxable profits against which the losses may be utilised. The determination of the amount of deferred tax assets that can be recognised is based on the timing and level of future taxable profits, in combination with future tax planning strategies. These variables are determined based on significant estimates and assumptions, and are by definition uncertain. It is possible that the actual conditions in the future will be different from the assumptions used, resulting in material adjustments to the carrying value of deferred tax assets.

No deferred tax asset has been recognised in the statement of financial position as at 31 December 2020 and 2019. A summary of the tax losses on which no deferred tax asset has been recognised is disclosed in Note 11.

3.4. Fair value of assets and liabilities (Note 2.18)

Financial assets and liabilities

The fair value of investments at amortised cost is disclosed in Note 18. Furthermore, management estimates that the fair value of all other financial assets, as well as financial liabilities, approximates their carrying amounts as presented in the statement of financial position.

Non-financial assets - Freehold land and buildings

The Bank, effective from 1 January 2018, has adopted the revaluation model under IAS 16 for freehold land and buildings. In addition to fair value measurement considerations, management exercises judgment in determining if and when a revaluation exercise would be necessary, considering, among other, the sufficiency of frequency of periodic revaluations based on the Bank's policies, as well as indicators that might, at any point in time, lead to the conclusion to carry out a revaluation exercise (e.g. when carrying amount appears to differ from assessed fair value).

3. Significant accounting estimates and judgments (continued)

3.4. Fair value of assets and liabilities (Note 2.18) (continued)

The fair value of freehold land and buildings is determined by using valuation techniques, with input from an independent real estate valuation expert, and the principles applied comply with IFRS 13. A valuation report dated 10 December 2020 (with sufficient proximity to the reporting date to be considered applicable for financial reporting purposes) was prepared by an independent, accredited, qualified valuer, who possesses appropriate qualifications and recent experience in the valuation of similar objects, in accordance with which the net book value of the Bank's business centre premises in Limassol, comprising of freehold land and buildings, does not materially differ from its fair value. The valuation conforms to International Valuation Standards and IFRS 13, and was based on recent market transactions of similar properties performed at arm's length terms. The fair value hierarchy of freehold land and buildings is disclosed in Note 20.

The Bank's management uses its judgment to select specific methods and make assumptions that are mainly based on market conditions existing at each reporting date. In addition to market conditions, the Bank's management assesses current economic developments and uncertainties that might influence the valuation of freehold land and buildings. Management exercises judgment in evaluating the unprecedented set of circumstances caused by COVID-19, which impacted the scope of the independent valuer's work. The latter's valuation was reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. This does not equate to lesser or no reliability of the valuation which management uses for the determination of fair value for financial reporting purposes, but rather provides further insight as to the market context under which the valuation was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19, management will be revisiting the valuation of the property frequently, as needed.

4. Interest income

	2020	2019
Interest income recognised using the effective interest method	**€**	€
Loans and advances to customers	**5.457.152**	3.802.016
Investments at amortised cost	**144.036**	113.443
Investments at fair value through other comprehensive income	**3.100**	3.486
Placements with banks	**7.079**	9.896
	5.611.367	3.928.841

5. Interest expense

	2020	2019
Interest expense recognised using the effective interest method	**€**	€
Customer deposits	**315.026**	278.285
Balances with Central Bank	**128.144**	93.147
Other borrowings (*Note 24*)	**52.145**	49.960
Lease liabilities (*Note 25*)	**29.982**	35.400
Placements with banks	**16.107**	11.701
	541.404	468.493

Balances held with the Central Bank and other banks carry negative interest, which averaged -0,45% as at 31 December 2020 (2019: -0,40%).

6. Fee and commission income and expense

Fee and commission income

	2020	2019
	€	€
Payment services	**239.393**	182.113
Clearing and settlement	**168.000**	116.087
Insurance rebate arrangements	**158.220**	103.184
Loan servicing and commitments	**462.139**	96.664
Financial guarantees	**76.237**	92.366
Other	**230.213**	173.706
	1.334.202	764.120

Fee and commission expense

	2020	2019
	€	€
Clearing and settlement	**221.620**	202.023

7. Staff costs

	2020	2019
	€	€
Staff salaries and other remuneration, net of subsidies	**3.047.219**	2.874.317
Pension plan contributions	**64.549**	137.780
Social insurance and other employer's contributions	**428.893**	411.653
	3.540.661	3.423.750

The number of persons employed by the Bank as at 31 December 2020 was 95 (2019: 83). Remuneration concerning Directors and key management personnel is disclosed in Note 35.

The Bank operates a defined contribution scheme, which provides for employer contributions of 6% on employees' gross salary and for employee contributions within a range of 4%-10% of their gross salary. As part of proactive actions taken by the management of the Bank in response to the side effects of COVID-19, employer contributions were reduced to 2% on employees' gross salary for the period 1 April until 31 December 2020. As of 1 January 2021, employer contributions have been reinstated to 6% for all employees, with the exception of those employees that were adversely affected by the reduced employer contributions, for whom employer contributions will be increased to 10% until full reimbursement of amounts foregone.

For the year ended 31 December 2020, staff costs amounting to €153.592 representing salaries and employer's contributions have been capitalised and recognised under intangible assets (Note 21).

The Bank's contributions are expensed as incurred and are included under 'Staff costs' line. The Bank has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employee benefits relating to employee service in the current period. This scheme is in the form of a pension plan under Ancoria Insurance Public Ltd, an indirect shareholder of the Bank.

8. Other operating expenses

	2020	2019
	€	€
Rental of properties	**2.700**	-
Utilities and other premises expenses	**187.888**	163.158
Post and telecommunication expenses	**227.012**	219.364
Insurance expenses	**61.774**	42.756
Directors' remuneration and expenses	**148.321**	149.028
Travelling and training, net of any subsidies	**25.354**	76.854
Auditors' remuneration for statutory audit	**66.500**	59.500
Auditors' remuneration for other non-audit assurance engagements	**-**	52.181
Legal and consultancy fees	**279.743**	375.512
Advertising and promotion	**200.436**	146.607
Special tax levy on deposits (*Note 11*)	**403.182**	296.135
Supervisory fees	**88.561**	108.980
Contributions to resolution funds and deposit guarantee schemes	**50.361**	-
Computer supplies, maintenance and related expenses	**909.097**	815.810
Professional and trade subscriptions	**75.051**	62.161
Printing and stationery	**45.740**	38.050
Other operating expenses	**86.203**	109.873
	2.857.923	2.715.969

9. Loss allowance

	2020	2019
	€	€
Loans and advances to customers (*Note 14*)	**615.341**	75.071
Financial guarantees and commitments (*Note 26*)	**14.082**	(50.157)
Investments at fair value through other comprehensive income (*Note 16*)	**745**	(144)
Investments at amortised cost (*Note 17*)	**85.185**	910
	715.353	25.680

The table below shows the loss allowance charge per stage and by assessment approach for the year:

	2020					
	Stage 1 Individual	**Stage 1 Collective**	**Stage 2 Individual**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Loans and advances to customers	**-**	**202.409**	**253.686**	**61.312**	**97.934**	**615.341**
Financial guarantees and commitments	**-**	**13.868**	**-**	**214**	**-**	**14.082**
Investments at fair value through other comprehensive income	**745**	**-**	**-**	**-**	**-**	**745**
Investments at amortised cost	**85.185**	**-**	**-**	**-**	**-**	**85.185**
Total loss allowance	**85.930**	**216.277**	**253.686**	**61.526**	**97.934**	**715.353**

	2019					
	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3 Individual	Total
	€	€	€	€	€	€
Loans and advances to customers	(143.155)	244.593	-	(68.490)	42.123	75.071
Financial guarantees and commitments	(27.939)	18.029	(36.643)	(3.604)	-	(50.157)
Investments at fair value through other comprehensive income	(144)	-	-	-	-	(144)
Investments at amortised cost	910	-	-	-	-	910
Total loss allowance	(170.328)	262.622	(36.643)	(72.094)	42.123	25.680

10. Loss before tax

Loss before tax is stated after charging the following items:

	2020	2019
	€	€
Directors' remuneration (*Note 35*)	**147.249**	143.537
Operating lease rentals for buildings and software	**55.091**	54.383
Auditors' remuneration for:		
- Statutory audit	**66.500**	59.500
- Other non-audit assurance engagements	**-**	52.182

All the above amounts are included under 'Other operating expenses' line.

11. Income tax

The total tax charge for the year can be reconciled to the accounting profit or loss as follows:

	2020	2019
	€	€
Loss before tax	**(1.837.833)**	(3.172.050)
Corporation tax based on applicable rates	**(229.729)**	(396.506)
Tax effect of:		
- Non-deductible expenses	**250.291**	179.529
- Allowances and income not subject to tax	**(120.538)**	(148.275)
- Tax losses for the year	**99.976**	365.252
	-	-
Withholding tax recovered / (charged) on dividend income	**162**	(68)
Tax recovery / (charge)	**162**	(68)

Corporation tax is calculated at the rate of 12,5% on taxable income.

As per the Income Tax law, a company may carry forward tax losses incurred during a tax year, over the next five years to be offset against taxable income. As at 31 December 2020, the Bank's tax losses to be carried forward amounted to €19.418.296 (2019: €21.592.444). Tax losses until year end 2016 amounting to €8.461.243 have been assessed and confirmed by the Tax Department.

No deferred tax asset was recognised in respect of tax losses due to uncertainties pertaining the amount and timing of future taxable benefits.

Special Tax Levy on Credit Institutions

According to the Special Levy on Credit Institutions Law of 2011 passed on 14 April 2011, a special levy on credit institutions was imposed on qualifying deposits held by each credit institution at 31 December of the year preceding the year of taxation. Based on the latest amendment of the Law published in the official Gazette on the 26 July 2013, the annual special tax levy is calculated on a quarterly basis at the rate 0,0375% on the deposits of financial institutions at 31st March, 30th June, 30th September and 31st December of each year.

For the year ended 31 December 2020, the total Special Tax Levy imposed on the Bank's qualifying deposits amounted to €403.182 (2019: €296.135) and is included under 'Other operating expenses' line (Note 8).

12. Cash and balances with Central Bank

	2020	2019
	€	€
Cash	**4.891.130**	4.408.925
Balances with Central Bank of Cyprus		
- Non-obligatory balances	**39.137.175**	17.501.270
- Obligatory balances for liquidity purposes	**2.861.137**	2.144.459
	46.889.442	24.054.654

The analysis of credit ratings for deposits with the CBC by independent rating agencies is presented in Note 33. Balances with CBC carry an interest charge for utilised amounts out of obligatory deposits.

13. Placements with banks

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 33.

	2020	2019
	€	€
Foreign Banks		
- Short-term placements considered cash equivalents (*Note 32*)	**4.557.610**	2.491.836
- Long-term placements	**-**	1.173.847
	4.557.610	3.665.683

Placements with foreign banks mainly refer to current balances on nostro accounts with correspondent banks. The majority of these balances in 2020 was kept with KBC Bank NV for a total amount of €2.250.066 (2019: €2.444.788). All placements with foreign banks carry an interest charge based on the interbank rate of the relevant term and currency.

14. Loans and advances to customers

	2020	2019
	€	€
Retail		
Housing	**130.779.568**	108.615.420
Consumer	**18.438.913**	9.737.511
Overdrafts	**597.326**	503.911
	149.815.807	118.856.842
Business		
Loans	**112.540.339**	80.010.775
Overdrafts	**10.217.870**	11.282.540
	122.758.209	91.293.315
Gross loans and advances to customers	**272.574.016**	210.150.157
Loss allowance on loans and advances to customers	**(1.143.473)**	(528.132)
	271.430.543	209.622.025

Movement of loss allowance on loans and advances to customers

	2020	2019
	€	€
1 January	**(528.132)**	(453.061)
Loss allowance for the year (*Note 9*)	**(615.341)**	(75.071)
31 December	**(1.143.473)**	(528.132)

There was no interest suspended as at 31 December 2020 (2019: €nil).

14. Loans and advances to customers (continued)

Non-performing exposures

Exposures that meet the non-performing exposures ('NPE') definition in accordance with the European Banking Authority's ('EBA') technical standards are considered to be in default and for this reason classified under Stage 3 (credit-impaired). The expected credit losses ('ECL') of these credit facilities are calculated on a lifetime basis.

On 31 December 2020, an amount of €314.782 (2019: €206.918) was classified by the Bank as NPE. The following exposures are considered NPE:

- Exposures with material credit obligations of more than ninety (90) days past due
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due
- The exposure is impaired as per the applicable accounting framework
- Exposures considered as in default in accordance with EU Regulation 575/2013 Article 178
- Exposures where legal action has been taken by the Bank against them or exposures of which debtors are bankrupt
- Forborne exposures reclassified from NPE status that were NPE at forbearance or became NPE after forbearance and which are re-forborne while under probation
- Forborne exposures reclassified from NPE status that were NPE at forbearance or became NPE after forbearance that present arrears 30 days past due while under probation
- For debtors classified as retail as per the EU Regulation 575/2013, the Bank applies the definition of default, and thus the classification of NPE at the credit facility level. However, when the Bank has on-balance sheet exposures to a debtor that are material and are past due by more than 90 days and the gross carrying amount of which represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, then all on and off-balance sheet exposures to that debtor shall be considered as NPE
- For debtors classified as non-retail as per the EU Regulation 575/2013, when the Bank has on-balance sheet exposures to a debtor classified as non-performing, then all on and off-balance sheet exposures to that debtor shall be considered as NPE

In October 2017, the European Commission published a delegated regulation supplementing EU Regulation 575/2013 with regard to regulatory technical standards for the materiality threshold for credit obligations past due which states the following thresholds:

- Absolute threshold cannot be higher than €100 for retail exposures or €500 for non-retail exposures
- Relative thresholds to be set at the level of 1% for both retail and non-retail exposures
- If a national competent authority considers that the 1% materiality threshold does not reflect a reasonable level of risk, it may set a relative threshold at a different level which in any case must be lower than or equal to 2,5%

14. Loans and advances to customers (continued)

According to EU Regulation 575/2013 Article 178, reasonable materiality thresholds of credit obligations past due shall be defined by national competent authorities. The Central Bank of Cyprus ('CBC') has issued a Directive on Supervisory Reporting on Forbearance and Non-Performing Exposures of 2020 stating the following materiality thresholds:

- For obligors of retail exposures, including exposures secured by mortgages of residential or commercial property, the higher of:
  - a. A minimum limit of €100, i.e. if the amount in arrears of an obligor who has a retail exposure does not exceed €100, this exposure is not classified as defaulted exposure, or
  - b. A limit of 1% of the on-balance sheet exposure of the credit facility excluding equity exposures
- For other exposures, the higher of:
  - a. A minimum limit of €500, i.e. if the total amount in arrears of the total exposure of an obligor does not exceed €500, this exposure is not classified as defaulted exposure, or
  - b. A limit of 1% of all on-balance sheet exposures of the Bank against that obligor, excluding equity exposures

Forborne exposures

On 31 December 2020, no forborne exposures were held by the Bank in accordance with EBA's technical standards published in 2014.

According to the standards, forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties
- A total or partial refinancing of a troubled debt contract that would not have been granted had the debtor not been in financial difficulties.

Evidence of concession includes:

- A difference in favour of the debtor between the modified and the previous terms of the contract
- Cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the same institution.

Bank's policy for specific and collective loss allowance

The Bank reviews the collectability of its loans and advances to customers and assesses whether a loss allowance should be recorded in profit or loss. The procedure followed by the Bank for this exercise comprises of an individual assessment of the exposures for specific loss allowance and an assessment for collective loss allowance as per the Bank's provisioning policy.

The selection criteria for clients which are individually assessed for specific loss allowance are the following:

- To key management personnel and their connected persons, regardless of exposure amount and exposure performance, as long as they are not classified as Stage 1 exposures
- Facilities where evidence of impairment exists as outlined in Note 2.9.

14. Loans and advances to customers (continued)

For the exposures that are individually assessed for impairment, discounted cash flow calculations are performed. The amount of loss allowance is the difference between the exposure's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flows include any expected cash flows from the borrower's operations, any other sources of funds and the proceeds from liquidation of collateral where applicable.

Collective loss allowance

All exposures which are assessed on an individual basis but for which no impairment is recognised and all exposures not individually assessed are included in pools of exposures with similar credit characteristics and are assessed for collective loss allowance using the applicable Probability of Default and Loss Given Default rates that are set in the Bank's provisioning policy.

15. Financial assets at fair value through profit or loss

	2020	2019
Loans and advances	**€**	€
1 January	**15.000**	20.000
Changes in carrying amount	**(5.000)**	(5.000)
	10.000	15.000
Fair value loss on revaluation	**(10.000)**	(15.000)
31 December	**-**	-

Financial assets at fair value through profit or loss represent a single exposure which has been mandatorily classified at fair value through profit or loss as a result of failing the Solely Payment of Principal and Interest test ('SPPI') upon initial recognition in accordance with IFRS 9 provisions.

16. Investments at fair value through other comprehensive income

	2020	2019
	€	€
Bonds		
Credit institutions	**1.807.149**	1.914.564
Non-financial corporations	**301.074**	301.682
	2.108.223	2.216.246
Loss allowance on investments at fair value through other comprehensive income	**(1.053)**	(308)
	2.107.170	2.215.938
Equity instruments measured at fair value through other comprehensive income		
Exchange-traded funds	**80.261**	86.741
	2.187.431	2.302.679
Listed on European stock exchanges	**2.107.170**	2.215.938
Listed on US stock exchanges	**80.261**	86.741
	2.187.431	2.302.679

The Bank has classified the exchange-traded funds held as at 31 December 2020 at FVOCI because it does not hold them for trading. The Bank has irrevocably elected to classify them at FVOCI.

16. Investments at fair value through other comprehensive income (continued)

Movement of loss allowance on investments at fair value through other comprehensive income

	2020	2019
	€	€
1 January	**(308)**	(452)
Loss (allowance) / recovery for the year (*Note 9*)	**(745)**	144
31 December	**(1.053)**	(308)

Geographical breakdown based on region / country of issuer

	2020	2019
	€	€
United States of America	**1.283.080**	1.295.822
European Union countries	**904.351**	1.006.857
	2.187.431	2.302.679

As part of actions taken in accordance with its Liquidity Management Policy (as mentioned in Note 33), during 2020 the Bank did not acquire any debt investments at fair value through other comprehensive income (2019: €2.500.000). Additionally, no investments were disposed during 2020 (2019: €300.000), while investments of nominal amount of €100.000 matured during 2020 (2019: €nil). The classification of investments in accordance with their fair value hierarchy are presented in Note 18.

The weighted average total return on debt instruments at fair value through other comprehensive income held as at 31 December 2020 was -0,03% (2019: 0,73%) calculated on the portfolio's revaluation gain or loss and interest receivable during the year.

The weighted average total return on equity instruments at fair value through other comprehensive income held as at 31 December 2020 was -5,51% (2019: 5,37%) calculated on the portfolio's revaluation gain or loss and dividend receivable during the year.

17. Investments at amortised cost

	2020	2019
	€	€
Bonds		
Cyprus government	**2.499.965**	-
Other governments	**6.549.669**	6.966.882
Credit institutions	**5.171.241**	5.496.763
Other financial corporations	**4.361.467**	4.397.760
Non-financial corporations	**6.978.294**	8.127.204
	25.560.636	24.988.609
Loss allowance on investments at amortised cost	**(108.628)**	(23.443)
	25.452.008	24.965.166
Listed on Cyprus Stock Exchange	**2.494.133**	-
Listed on European stock exchanges	**22.957.875**	24.965.166
	25.452.008	24.965.166

17. Investments at amortised cost (continued)

Movement of loss allowance on investments at amortised cost

	2020	2019
	€	€
1 January	**(23.443)**	(22.533)
Loss allowance for the year (*Note 9*)	**(85.185)**	(910)
31 December	**(108.628)**	(23.443)

Geographical breakdown based on region / country of issuer

	2020	2019
	€	€
Cyprus	**2.499.965**	-
European Union countries	**17.783.796**	19.451.594
Other countries	**5.168.247**	5.513.572
	25.452.008	24.965.166

As part of actions taken in accordance with its Liquidity Management Policy (as mentioned in Note 33), during 2020 the Bank acquired investments at amortised cost of nominal amount of €12.500.000 (2019: €15.975.000). Additionally, investments of nominal amount of €11.673.000 matured during 2020 (2019: €9.325.000). No disposals of investments at amortised cost took place during 2020 (2019: €nil).

The weighted average acquisition yield on investments at amortised cost held as at 31 December 2020 was 0,55% (2019: 0,59%).

The fair value of investments at amortised cost and their classification in accordance with the fair value hierarchy are presented in Note 18.

The credit ratings applicable to investments at amortised cost as at 31 December 2020 and 2019 are presented in Note 33.

18. Fair value measurement of financial assets

	2020		2019	
	Carrying value €	**Fair value €**	Carrying value €	Fair value €
Financial assets				
Cash and balances with Central Bank	**46.889.442**	**46.889.442**	24.054.654	24.054.654
Placements with banks	**4.557.610**	**4.557.610**	3.665.683	3.665.683
Loans and advances to customers	**271.430.543**	**271.430.543**	209.622.025	209.622.025
Investments at fair value through other comprehensive income	**2.187.431**	**2.187.431**	2.302.679	2.302.679
Investments at amortised cost	**25.452.008**	**26.223.364**	24.965.166	25.481.280
	350.517.034	**351.288.390**	264.610.207	265.126.321
Financial liabilities				
Customer deposits	**296.260.609**	**296.260.609**	224.584.481	224.584.481
Funding from central banks	**18.000.000**	**18.000.000**	9.300.000	9.300.000
Other borrowings	**8.124.749**	**8.124.749**	9.275.340	9.275.340
Lease liabilities	**989.645**	**989.645**	1.106.651	1.106.651
	323.375.003	**323.375.003**	244.266.472	244.266.472

The fair value of financial assets and liabilities presented within the above table is as at the reporting date and does not represent any expectations about their future values.

The Bank 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 observable market data.

18. Fair value measurement of financial assets (continued)

The following table presents the fair value measurement hierarchy of the Bank's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of fair value hierarchy:

2020	**Level 1 €**	**Level 2 €**	**Level 3 €**	**Total €**
Financial assets measured at fair value				
Investments at fair value through other comprehensive income	**2.187.431**	**-**	**-**	**2.187.431**
Financial assets not measured at fair value				
Cash and balances with Central Bank	**-**	**46.889.442**	**-**	**46.889.442**
Placements with banks	**-**	**4.557.610**	**-**	**4.557.610**
Loans and advances to customers	**-**	**-**	**271.430.543**	**271.430.543**
Investments at amortised cost	**23.727.441**	**2.495.923**	**-**	**26.223.364**
	23.727.441	**53.942.975**	**271.430.543**	**349.100.959**
Financial liabilities not measured at fair value				
Customer deposits	**-**	**-**	**296.260.609**	**296.260.609**
Funding from central banks	**-**	**-**	**18.000.000**	**18.000.000**
Other borrowings	**-**	**-**	**8.124.749**	**8.124.749**
Lease liabilities	**-**	**-**	**989.645**	**989.645**
	-	**-**	**323.375.003**	**323.375.003**

2019	Level 1 €	Level 2 €	Level 3 €	Total €
Financial assets measured at fair value				
Investments at fair value through other comprehensive income	2.302.679	-	-	2.302.679
Financial assets not measured at fair value				
Cash and balances with Central Bank	-	24.054.654	-	24.054.654
Placements with banks	-	3.665.683	-	3.665.683
Loans and advances to customers	-	-	209.622.025	209.622.025
Investments at amortised cost	25.481.280	-	-	25.481.280
	25.481.280	27.720.337	209.622.025	262.823.642
Financial liabilities not measured at fair value				
Customer deposits	-	-	224.584.481	224.584.481
Funding from central banks	-	-	9.300.000	9.300.000
Other borrowings	-	-	9.275.340	9.275.340
Lease liabilities	-	-	1.106.651	1.106.651
	-	-	244.266.472	244.266.472

18. Fair value measurement of financial assets (continued)

The following is a description of the determination of fair value for financial assets and liabilities and their respective level of fair value hierarchy:

- The cash and balances with Central Bank, placements with banks and funding from 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 and they are categorised as Level 2.
- Investments at fair value through other comprehensive income are reported on the statement of financial position at fair value based on quoted market prices and as a result are categorised as Level 1.
- Investments at amortised cost primarily consist of debt securities which, for disclosure purposes, are fairly valued using quoted prices in active markets. As a result, they are categorised as Level 1, with the exception of Treasury bills which are classified as Level 2 based on quoted market prices in markets of low activity.
- The fair value of loans and advances to customers is based on the present value of expected future cash flows based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. Loans and advances to customers are categorised as Level 3.
- Customer deposits and other borrowings are considered to approximate their carrying values and are categorised as Level 3. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar currency and maturity.

19. Other assets

	2020	2019
	€	€
Receivables from parent company (*Note 35*)	**226.691**	126.860
Deposits and prepayments	**357.908**	547.272
Other receivables	**2.652.213**	2.192.121
	3.236.812	2.866.253

Deposits and prepayments include an amount of €34.875 (2019: €33.300) relevant to premises lease agreements and related expenses.

Other receivables include an amount of €11.942 (2019: €14.342) that relates to receivables from suppliers in respect of VAT, which has already been remitted by the Bank to the VAT authorities during 2016. The remainder of ‘Other receivables’ mainly consist of cheques pending clearance and settlement accounts amounting to €2.281.749 (2019: €1.961.788).

20. Property and equipment

2020	Land €	Freehold property €	Leasehold improvements €	Equipment €	Furniture and fittings €	Right-of-use assets €	Other tangible assets €	Total €
Cost								
1 January	**1.200.000**	**3.409.942**	**1.515.789**	**1.150.272**	**558.685**	**1.839.095**	**71.280**	**9.745.063**
Additions	**-**	**10.641**	**3.305**	**119.817**	**12.305**	**67.057**	**71.280**	**284.405**
Transfers to equipment	**-**	**-**	**-**	**142.560**	**-**	**-**	**(142.560)**	**-**
31 December	**1.200.000**	**3.420.583**	**1.519.094**	**1.412.649**	**570.990**	**1.906.152**	**-**	**10.029.468**
Depreciation								
1 January	**-**	**161.402**	**630.780**	**638.612**	**219.815**	**804.620**	**-**	**2.455.229**
Charge for the year	**-**	**102.479**	**151.760**	**225.474**	**56.436**	**186.145**	**-**	**722.294**
31 December	**-**	**263.881**	**782.540**	**864.086**	**276.251**	**990.765**	**-**	**3.177.523**
Net Book Value	**1.200.000**	**3.156.702**	**736.554**	**548.563**	**294.739**	**915.387**	**-**	**6.851.945**

2019	Land €	Freehold property €	Leasehold improvements €	Equipment €	Furniture and fittings €	Advances for premises €	Other tangible assets €	Total €
Cost								
1 January	1.200.000	3.395.786	1.509.068	1.218.379	543.359	-	21.707	7.888.299
Impact of IFRS 16	-	-	-	-	-	1.839.095	-	1.839.095
1 January after impact of IFRS 16	1.200.000	3.395.786	1.509.068	1.218.379	543.359	1.839.095	21.707	9.727.394
Additions	-	14.156	6.721	29.140	15.326	-	71.280	136.623
Transfers to equipment	-	-	-	21.707	-	-	(21.707)	-
Disposals	-	-	-	(118.954)	-	-	-	(118.954)
31 December	1.200.000	3.409.942	1.515.789	1.150.272	558.685	1.839.095	71.280	9.745.063
Depreciation								
1 January	-	59.422	479.666	506.054	164.809	-	-	1.209.951
Impact of IFRS 16	-	-	-	-	-	617.748	-	617.748
1 January after impact of IFRS 16	-	59.422	479.666	506.054	164.809	617.748	-	1.827.699
Charge for the year	-	101.980	151.114	207.168	55.006	186.872	-	702.140
Disposals	-	-	-	(74.610)	-	-	-	(74.610)
31 December	-	161.402	630.780	638.612	219.815	804.620	-	2.455.229
Net Book Value	1.200.000	3.248.540	885.009	511.660	338.870	1.034.475	71.280	7.289.834

20. Property and equipment (continued)

The Bank has adopted the revaluation model under IAS 16 for owner-occupied property. A valuation report dated 10 December 2020 was prepared by an independent, accredited, qualified valuer, who possesses appropriate qualifications and recent experience in the valuation of similar objects, in accordance with which the net book value of the Bank's business centre premises in Limassol, comprising of freehold land and buildings, does not materially differ from its fair value.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. As such, the aforementioned freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The valuation conforms to International Valuation Standards and IFRS 13, and was based on recent market transactions of similar properties performed at arm's length terms.

The fair value of the freehold land and buildings was determined based on the application of the comparison and the investment methods of valuation. The comparison method reflects recent transaction prices for similar properties. The investment method considers rental yields regarded as applicable returns from renting. An equal weighting has been assigned to each method in estimating the fair value.

Details of the Bank's freehold land and buildings and information about their fair value hierarchy as at the end of the reporting period are as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
	€	**€**	**€**	**€**
Freehold land	**-**	**-**	**1.200.000**	**1.200.000**
Freehold buildings	**-**	**-**	**3.238.000**	**3.238.000**
	-	**-**	**4.438.000**	**4.438.000**

Sensitivity analysis to key unobservable inputs used in the valuation process

Significant unobservable inputs to the fair value measurement are considered to be:

- For the comparison method, the property price index for similar properties. A reasonable shift of 1% on this input would have caused a shift of €46.500 in the fair value of the property.
- For the investment method, the applicable rental yield rates for similar properties. A reasonable shift of 1% on this input, would have caused a shift of €42.270 in the fair value of the property.

There have been no transfers between levels during 2020. The movements reconciling opening carrying amount for the year to closing current amount for the year, have been the applicable depreciation charge for the year on freehold buildings and any additions, with no movement recorded under other comprehensive income.

IFRS 16 became applicable as of 1 January 2019 with retrospective effect without restating comparative figures. Consequently, the restatement of the opening balance of accumulated depreciation represents the depreciation of capitalised operating leases since their inception date and until 1 January 2019.

Right-of-use assets mainly comprise of lease agreements in relation to the premises in Nicosia and Larnaca, expiring in 2025 and 2026 respectively. These agreements include options for extension and termination under certain conditions. The potential future rental payments in case the extension options are effected have not been included within the lease term as the rental amount remains open for negotiation at the time of the extension. Management does not expect to proceed with a request for early termination of the lease agreements. The minimum undiscounted future lease payments as at the reporting date are estimated to be €1.142.150 (2019: €2.376.000).

20. Property and equipment (continued)

The right-of-use assets are tested for impairment under the requirements of IAS 36, if any indications exist. There were no such indications for impairment as of 31 December 2020. In arriving at such a conclusion, Management has considered, among other, the positive trend in property price indices in respect of premises used for comparable business purposes to the Bank's operations.

21. Intangible assets

2020	**Computer software and licences €**	**Intangibles under development €**	**Total €**
Cost			
1 January	**3.053.708**	**49.819**	**3.103.527**
Additions	**952**	**299.858**	**300.810**
Transfers	**129.686**	**(129.686)**	**-**
31 December	**3.184.346**	**219.991**	**3.404.337**
Amortisation			
1 January	**2.412.231**	**-**	**2.412.231**
Charge for the year	**212.664**	**-**	**212.664**
31 December	**2.624.895**	**-**	**2.624.895**
Net Book Value	**559.451**	**219.991**	**779.442**

2019	Computer software and licences €	Intangibles under development €	Total €
Cost			
1 January	2.753.488	20.816	2.774.304
Additions	34.424	299.083	333.507
Transfers	270.080	(270.080)	-
Disposals	(4.284)	-	(4.284)
31 December	3.053.708	49.819	3.103.527
Amortisation			
1 January	2.044.564	-	2.044.564
Charge for the year	369.928	-	369.928
Disposals	(2.261)	-	(2.261)
31 December	2.412.231	-	2.412.231
Net Book Value	641.477	49.819	691.296

22. Customer deposits

	2020	2019
	€	€
Current accounts	**183.234.535**	125.702.643
Savings accounts	**29.632.999**	21.185.722
Fixed term deposit accounts	**83.393.075**	77.696.116
	296.260.609	224.584.481

23. Funding from central banks

Funding from central banks comprises of funding from the European Central Bank under the Eurosystem monetary policy operations.

	2020	2019
	€	€
Targeted Longer-Term Refinancing Operations III	**18.000.000**	9.300.000

The Bank has participated in 3 out of the first 7 operations of Targeted Longer-Term Refinancing Operations III (‘TLTRO III’), namely TLTRO III.1, TLTRO III.2 and TLTRO III.4, for which the maturity period is set to three years, with a repayment option after one or two years. As of September 2021, 12 months after the settlement of each TLTRO III operation, participants have the option of early repayment on a quarterly basis.

In accordance with the Directive of the Implementation of the Eurosystem Monetary Policy Framework of 2015, the Bank has received additional funding of €8.700.000 on 24 June 2020. No repayments have been made during 2020 and no interest has been accrued.

For counterparties whose eligible net lending between the second reference period (1 April 2019 – 31 March 2021) exceeds their benchmark net lending, the interest rate applied to TLTRO III will be lower than the average rate on the main refinancing operation over the life of the respective TLTRO III, and can be as low as the average deposit facility rate (‘DFR’) prevailing over the life of the respective TLTRO III operation. For the period from 24 June 2020 to 23 June 2022, interest rate applied could be 50 basis points lower than the average DFR but not higher than -1% provided that the eligible net lending between the special reference period (1 March 2020 - 31 March 2021) and the additional special reference period (1 October 2020 - 31 December 2021) exceeds their benchmark net lending. The interest rate incentive adjustment will be communicated to participants before the first early repayment date in September 2021.

The final interest rate to be charged will be announced on 23 September 2022 for TLTRO III.1, on 16 December 2022 for TLTRO III.2 and on 23 June 2023 for TLTRO III.4. The maximum interest rate expected to be paid by the Bank is 0%, with minimum interest rate expected at -1%. The Bank’s benchmark net lending is at nil and the eligible net lending will be reported to the Central Bank of Cyprus by 17 August 2021. The Bank expects that the interest rate to be charged will be lower than 0%.

Details on encumbered assets related to the above funding facilities are disclosed in Note 33.

24. Other borrowings

	2020	2019
	€	€
1 January	**9.275.340**	5.351.684
Advancements	**-**	4.500.000
Interest charged (*Note 5*)	**52.145**	49.960
Repayments	**(1.202.736)**	(626.304)
31 December	**8.124.749**	9.275.340

On 16 May 2017, the Bank entered into a portfolio risk sharing loan agreement of €20 million with the European Investment Fund acting on behalf of the Cyprus Entrepreneurship Fund (‘CYPEF’). CYPEF is a fund established by the Republic of Cyprus to implement a national scheme for facilitating access to finance and improving funding conditions for small and medium-sized enterprises (including self-employed entrepreneurs) active in Cyprus in collaboration with selected financial intermediaries.

In accordance with the terms of the agreement, CYPEF will contribute €10 million and the Bank an additional €10 million towards lending small and medium-sized enterprises (‘SMEs’) at lower interest rates than what would have been offered by the Bank in the absence of the agreement with CYPEF. The €10 million of CYPEF will be made available to the Bank in tranches to be decided by the Bank and subject to the satisfaction of certain covenants.

The commencement date of the agreement is considered to be the 1st of June 2017. The agreement carries a maximum maturity period of 15 years. The loan payable to CYPEF is charged with interest rate of 3-month Euribor + 1,00% and repayments of the loan are made quarterly depending on the amount of repayments made by SMEs with outstanding balances under the scheme. The agreement provides that the principal amount owed towards CYPEF will be reduced in case of a defaulted or restructured exposure under the scheme, subject to certain covenants.

25. Lease liabilities

	2020	2019
	€	€
As at 1 January	**1.106.651**	1.285.189
Additions	**67.057**	-
Interest accrued (*Note 5*)	**29.982**	35.400
Lease payments	**(214.045)**	(213.938)
As at 31 December	**989.645**	1.106.651

The analysis of lease liabilities by expected maturity is disclosed in Note 30 and by contractual maturity in Note 33.

26. Provisions and other liabilities

	2020	2019
	€	€
Social insurance and related taxes, defence tax and stamp duty payable	**198.263**	148.549
Accrued expenses	**288.484**	549.525
VAT payable	**10.818**	12.194
Loss allowance on financial guarantees and commitments	**57.235**	43.153
Other creditors and liabilities	**2.128.617**	3.271.615
	2.683.417	4.025.036

Other creditors and liabilities mainly consist of issued cheques pending clearance and settlement accounts.

Movement of loss allowance on financial guarantees and commitments

	2020	2019
	€	€
1 January	**43.153**	93.310
Loss allowance / (recovery) for the year (*Note 9*)	**14.082**	(50.157)
31 December	**57.235**	43.153

27. Share capital and share premium

	2020			2019		
	Number of shares	**Share capital €**	**Share premium €**	Number of shares	Share capital €	Share premium €
Authorised						
Ordinary shares of €1 each	**201.000**	**201.000**	-	201.000	201.000	-
Issued and fully paid						
1 January	**101.000**	**101.000**	**49.900.000**	101.000	101.000	49.900.000
Issue of ordinary shares	**20.000**	**20.000**	**9.980.000**	-	-	-
31 December	**121.000**	**121.000**	**59.880.000**	101.000	101.000	49.900.000

Authorised capital

Under its Memorandum of Association, the Company fixed its authorised share capital at 1.000 ordinary shares of nominal value of €1 each.

On 15 December 2014, the Company increased its authorised capital to 201.000 ordinary shares of nominal value of €1 each.

Issued and fully paid capital

Upon incorporation on 20 August 2013, the Company issued to the subscribers of its Memorandum of Association 1.000 ordinary shares of €1 each at par.

On 15 December 2014, the Company issued 50.000 additional ordinary shares of €1 each, at a premium of €499 each.

27. Share capital and share premium (continued)

On 29 December 2014, the Company issued 38.493 additional ordinary shares of €1 each, at a premium of €499 each.

On 24 July 2015, the Company issued 11.507 additional ordinary shares of €1 each, at a premium of €499 each.

Based on a resolution passed by the Board of Directors on 8 April 2020, the Bank has issued and allotted an additional 20.000 ordinary shares of €1 each at a premium of €499 each, to Ancoria Investments Plc for a total subscription price of €10.000.000.

As at 31 December 2020, the Bank had a total issued share capital of 121.000 (2019: 101.000) ordinary shares of nominal value of €1 each, at a total premium of €59.880.000 (2019: €49.900.000).

28. Revaluation reserve

	2020	2019
Investments fair value reserve	**€**	€
1 January	**7.919**	(23.049)
Revaluation of equity instruments at fair value through other comprehensive income	**(6.480)**	2.822
Revaluation of debt instruments at fair value through other comprehensive income	**4.882**	28.146
31 December	**6.321**	7.919

The revaluation reserve represents the cumulative gains and losses arising on the revaluation of:

- Investments in equity instruments designated at fair value through other comprehensive income
- Investments in debt instruments classified at fair value through other comprehensive income, net of cumulative loss allowance recognized on these investments.

Investments in equity instruments designated at fair value through other comprehensive income are not subject to impairment and their cumulative fair value gain or loss included in the revaluation reserve is not subsequently reclassified to profit or loss.

29. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2020 and 2019, no dividends were paid nor declared to be paid since the Bank had accumulated losses.

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic 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 dividends. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders at the end of the period of two years from the end of the period of assessment to which the profits refer are both Cyprus tax residents and domiciled. The deemed distribution provisions do not apply if the ultimate shareholders are either non-Cyprus tax residents or non-Cyprus domiciled. The amount of deemed dividend distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Bank for the account of the shareholders.

The Bank incurred losses in 2018 and, as a result, no special defence contribution in relation to deemed dividend distribution was payable in the current year.

30. Analysis of assets and liabilities by expected maturity

	2020			2019		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and balances with Central Bank	**46.889.442**	**-**	**46.889.442**	24.054.654	-	24.054.654
Placements with banks	**4.557.610**	**-**	**4.557.610**	3.665.683	-	3.665.683
Loans and advances to customers	**20.420.395**	**251.010.148**	**271.430.543**	15.921.334	193.700.691	209.622.025
Investments at fair value through other comprehensive income	**602.362**	**1.585.069**	**2.187.431**	100.536	2.202.143	2.302.679
Investments at amortised cost	**5.364.323**	**20.087.685**	**25.452.008**	1.699.229	23.265.937	24.965.166
Other assets	**3.236.812**	**-**	**3.236.812**	2.866.253	-	2.866.253
Property and equipment	**40.138**	**6.811.807**	**6.851.945**	50.330	7.239.504	7.289.834
Intangible assets	**58.999**	**720.443**	**779.442**	77.335	613.961	691.296
	81.170.081	**280.215.152**	**361.385.233**	48.435.354	227.022.236	275.457.590
Liabilities						
Customer deposits	**73.011.005**	**223.249.604**	**296.260.609**	77.696.116	146.888.365	224.584.481
Funding from central banks	**4.650.000**	**13.350.000**	**18.000.000**	-	9.300.000	9.300.000
Other borrowings	**610.305**	**7.514.444**	**8.124.749**	867.684	8.407.656	9.275.340
Lease liabilities	**231.000**	**758.645**	**989.645**	212.769	893.882	1.106.651
Provisions and other liabilities	**2.626.182**	**57.235**	**2.683.417**	3.981.883	43.153	4.025.036
	81.128.492	**244.929.928**	**326.058.420**	82.758.452	165.533.056	248.291.508

The main assumptions used in determining the expected maturity of assets and liabilities are set out below:

- Loans and advances to customers are classified based on their expected repayment schedule. Overdraft accounts are classified in the over one year time band. Accumulated loss allowances on loans and advances are classified in the over one year time band based on the expected repayment schedule of loans and advances.
- Investments at fair value through other comprehensive income and investments at amortised cost 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. Accumulated loss allowances on investments at fair value through other comprehensive income and investments at amortised cost are classified in the over one year time band.
- Customer deposits are classified based on contractual maturity date. Current and savings accounts are classified in the over one year time band.
- Other borrowings are classified based on their expected repayment schedule.
- Accumulated loss allowances on financial guarantees and commitments recognised under other liabilities are classified in the over one year time band based on their expected realisation or maturity.
- Lease liabilities are classified based on their expected repayment schedule.
- The expected maturity of all other assets and 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.

31. Net cash flow from operating activities

	2020	2019
	€	€
Loss before tax	**(1.837.833)**	(3.172.050)
Adjustments:		
Depreciation of property and equipment	**722.294**	702.140
Amortisation of intangible assets	**212.664**	369.928
Loss allowance	**715.353**	25.680
Gain on disposal of financial instruments	**-**	(1.294)
Net foreign exchange (gains) / losses	**11.190**	(39.046)
Net loss on disposal / write-off of property and equipment	**-**	28.292
Write-off of other receivables	**7.124**	1.241
Interest expense on lease liabilities	**29.982**	35.400
Amortisation of premiums / discounts and interest on debt securities	**(78.922)**	(101.559)
	1.619.685	1.020.782
(Increase) / decrease in operating assets:		
Obligatory balances held with the Central Bank	**(716.678)**	(651.366)
Long-term placements with banks	**1.173.847**	(1.173.847)
Loans and advances to customers	**(62.423.859)**	(92.189.137)
Other assets	**(370.559)**	(629.967)
	(62.337.249)	(94.644.317)
Increase / (decrease) in operating liabilities:		
Customer deposits	**71.676.128**	65.023.221
Other borrowings	**(1.150.591)**	3.923.656
Provisions and other liabilities	**(1.355.702)**	2.159.784
	69.169.835	71.106.661
Net cash flow from / (used in) operating activities	**6.614.438**	(25.688.924)

The total cash outflow for lease liabilities for the year amounted to €214.045 (2019: €213.938).

32. Cash and cash equivalents

	2020	2019
	€	€
Cash and non-obligatory balances with the Central Bank (*Note 12*)	**44.028.306**	21.910.195
Short-term placements with banks (*Note 13*)	**4.557.610**	2.491.836
	48.585.916	24.402.031

At 31 December 2020, placements with the Central Bank amounted to €41.998.312 (2019: €19.645.729).

33. Risk management

In the ordinary course of the business, the Bank is exposed to various risks, which are managed and monitored through a continuous process of identification, measurement, and monitoring to prevent undue risk concentrations. The risk management policies employed by the Bank to manage these risks are discussed below.

Credit risk

Credit risk is the risk created primarily from credit facilities, trading and treasury management if one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Risk Management Function has the responsibility to identify, evaluate and assess the credit risk of the Bank and the responsibility to make proposals on the management of and controls on credit risk through various mechanisms on the basis of the strategic goals as determined by the Board of Directors. It recommends establishing and developing credit policies and procedures based on European and local directives and adjusts internal policies and procedures as appropriate.

The Risk Management Function sets the procedure for granting of credit facilities to customers of the Bank according to the Bank's Risk Appetite Statement and Credit Risk Policy as set by the Board of Directors. Additionally, the Risk Management Function sets limits and principles of financing and assesses the new banking products and new banking activities of the Bank.

The approval process of credit facilities aims in minimising credit risk by evaluating the creditworthiness of the counterparty, the collateral offered and the type of credit facility. Emphasis is given on the customer's repayment ability and any collaterals assigned act as a fall-back position in times of financial difficulties. Credit risks from connected customer accounts are consolidated and monitored on a single customer group basis.

Credit risk strategy and appetite

The Bank has in place both a Credit Risk Management Policy and a Credit Risk Strategy that is reflected in the Bank's overall Risk Appetite Statement. The Bank pays significant attention to repayment ability of the customers with collateral used only as a fall-back position which aims to further enhance its recovery rates. The Bank has also in place, through its Risk Appetite Statement, unsecured loan portfolio limits. In addition to policies and procedures, the Bank has set internal concentration guidelines for both the loan portfolio allocations and limits regarding investment portfolio allocations in terms of credit quality, counterparty, industry, product type and group of connected customers' concentration.

Inherent credit risk assessment

The Bank's inherent credit risk arises mainly from the Bank's loan and investment portfolios, which include both on and off-balance sheet items. For each portfolio, the Bank performs an analysis of credit concentration (in terms of group of connected clients, sector, country and product), credit default and collateral.

Credit granting organisational framework, policies and procedures

Regarding the loan origination process, the Bank has procedures in place that clearly indicate the roles and responsibilities of personnel involved and is in line with the Directive issued by the Central Bank of Cyprus ('CBC') on Credit Granting and Review Processes as updated, including amendments made in April 2020. Segregation of duties is present throughout the process as relationship officers prepare applications and provide an opinion but cannot approve a credit facility.

Granting authority levels exist where seniority increases with exposure amount at group level. Granting authorities are not involved in loan disbursements. In addition, an independent Credit Sanctioning department exists which assesses applications of total exposure to customers above €450.000 and the Risk Management Function provides its opinion in terms of portfolio allocation, liquidity and capital impact for exposures above the same threshold. The Bank has adjusted its granting authority limits to be cumulative to all facilities of a group.

33. Risk management (continued)

The Bank utilises internally developed credit scoring models as part of its lending procedures.

As a second layer of defence, the Internal Audit department in collaboration with the Risk Management Function perform audits of the loan origination process for the entire portfolio on a sample-selection basis.

New products are reviewed by Risk Management Function in collaboration with Compliance and Legal departments and are approved by the Asset and Liability Committee ('ALCO'). Apart from loan products related to business customers for which no standard pricing exists, the pricing, collateral and other requirements are included within new product suggestions.

Credit risk monitoring and reporting

In terms of regulatory reporting, the Bank has in place an external solution for which data and results are cross-checked prior to submission.

The Bank prepares all reports relating to the control of credit risk at fixed intervals. The Risk Management Function communicates credit risk issues to the Board of Directors through its Risk Committee at least on a quarterly basis. Standardised reports to the Supervision Department of the CBC are sent on a monthly, quarterly, semi-annual and annual basis according to each report's requirements.

The Bank has made significant improvements in the monitoring of credit risk on the loan portfolio by enhancing information reported both at ALCO and Risk Committee level. In addition, loan opening procedure within the Bank's core banking system has been centralised aiming towards a uniform data entry with lower instances of human errors. The Bank currently monitors performance of facilities, concentrations per group of connected customers, industry and product type, unsecured amounts, collateral quality and adequacy and borrower's quality.

With regards to contractual agreements, the Bank has in place a system with standardised terms where application specific terms are upgraded or adjusted for explicit agreements where and when necessary.

The Bank's policy regarding the identification of impaired loans and advances and the methodology employed to determining any loss allowance is set out in Note 2.9.

Internal control framework

The Bank has in place internal concentration limits for both loan and investment portfolios. Such concentrations are also reflected in the Bank's Risk Appetite Statement. These limits are clearly defined and communicated to relevant departments of the Bank. The Risk Management Function is responsible for monitoring such limits and communicating current level of concentration and any concerns to ALCO and the Risk Committee through its monthly and quarterly reports respectively. Moreover, Internal Audit department undertakes audits of the bank's portfolio of credit facilities at frequent intervals.

Arrears Management Process

The Bank has in place an Arrears Management Policy and Strategy, as well as an Arrears Management Procedure which is in accordance with the CBC's Directive on Arrears Management of 2015.

In April of 2015, the CBC issued the Directive on Arrears Management and the Code of Conduct on the Handling of Borrowers in Financial Difficulties (the 'Code'), which set out the framework that all banks must use when dealing with customers in excesses/arrears or in pre-arrears. It requires Authorised Credit Institutions ('ACIs') to handle all such cases with the ultimate objective of reinstating, where possible, the sustainable ability of borrowers to meet their credit obligations.

33. Risk management (continued)

The Code is intended to support and facilitate a meaningful interaction between ACIs and eligible borrowers, with the ultimate goal of achieving a fair and sustainable restructuring, where possible. The code of conduct applies to the following persons:

- Natural persons granted credit facilities by the ACI with total balances of credit facilities (including credit facilities of their connected persons) up to €1 million. The said score of application includes guarantors of the borrower and third parties who provided securities to the ACI for the borrower;
- Micro and small enterprises, as defined in the European Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC), granted credit facilities by the ACI with total balance of credit facilities (including credit facilities of their connected persons) up to €1 million.

The framework on arrears aims to support and find solution for the Bank's customers who are in arrears, or are at risk of going into arrears. To this effect, the Code clearly outlines, inter alia, the responsibilities of the ACIs in the arrears management process. It, also, makes a clear distinction between cooperative and non-cooperative borrowers with the focus on a consensual and voluntary restructuring.

According to the Directive on Arrears Management, ACIs shall lay down effective processes and mechanisms in order to enable timely reaction in the event that the restructuring conditions and / or milestones are not being met and / or the financial situation of the borrower has materially changed. ACIs shall cascade the processes including legal and other measures to be undertaken for cases where sustainable viability cannot be achieved or the borrower is no longer cooperating.

A "borrower in financial difficulties" means a borrower whose financial position has deteriorated to an extent that he / she is or may in the foreseeable future be unable to service his / her credit facilities, in accordance with the contractual repayment program. A borrower is defined as "non-cooperative" when a warning letter has been sent to the borrower and the borrower did not carry out the actions specified in that letter and any of the following conditions apply:

- the borrower does not fully and honestly disclose to the Bank relevant and material information that would have a significant impact on the assessment of the borrower's repayment ability, or
- the borrower does not provide the relevant information and / or documentation as requested by the Bank for the assessment of the financial position of the borrower, within a determined by the Bank time limit, or
- the duration of the contact between the Bank and borrower after the first communication of the Bank on its decision for a proposed solution or solutions exceeds the 14-day time limit due to the borrower's culpability, or
- 90 days elapse:
  a. where the borrower has failed to meet his / her contractual payments in full and has not entered into a workout arrangement, or
  b. where the borrower does not contact or does not respond to contacts and notifications initiated by the Bank, or the borrower does not take collaborative steps with the credit institution to develop a restructuring plan.

The effective management of arrears of viable borrowers in financial difficulties is an essential component of the credit institution's risk management, particularly in a distressed environment. The objective of arrears management is to reduce credit risk and avoid further deterioration of the financial position of the borrower, with the ultimate objective of reinstating, where possible, the sustainable ability of borrowers to meet their credit obligations.

33. Risk management (continued)

The Risk Management Function has the responsibility of ensuring that appropriate skills and systems are in place for the effective management of credit facilities in arrears and the conduct of feasible and sustainable debt restructuring in accordance with the European Commission's Implementing Regulation 2015/227.

In 2020, the Bank has implemented an Arrears Management Procedure whose purpose is to set up efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and sustainable restructurings of credit facilities of borrowers with financial difficulties.

This procedure enforces the implementation of the Bank's Arrears Management Policy and Arrears Management Strategy. It thus aims to achieve the following:

- Adherence to the Code of Conduct on the Handling of Borrowers in Financial Difficulties who fall within the scope of this Code
- Adherence to the Business of Credit Institutions Laws of 1997 to 2015
- The implementation of a robust arrears management procedure aligned with the Bank's overall objectives and strategy
- The establishment of a strong organization and operating model to handle arrears volumes
- The monitoring of arrears management performance against key objectives and taking corrective measures as and when required

Risk Management Function

The Risk Management Function is responsible for monitoring adherence to the Risk Appetite Statement of the Bank as approved by the Board of Directors and the monitoring of risks on a regular basis. The primary objectives of the financial risk management function are to establish risk limits and then to ensure that exposure to risks stays within these limits. The Bank regularly reviews its risk management framework to reflect the changes in market and economic conditions, as well as, effective best practices.

Part of its responsibilities is the monitoring of the quality of the loan portfolio through a number of quality indicators. These indicators are monitored on a regular basis and, among others, include the following:

- Arrears / excesses: monitored weekly
- Non-performing exposures: monitored weekly
- Adequacy in provisions: monitored monthly
- Restructuring activity: ad-hoc monitoring
- Restructuring performance: ad-hoc monitoring

The monitoring of the aforementioned indicators facilitates the identification of early warnings, which are reported to senior management for the necessary actions and corrective measures, if needed.

Credit Sanctioning department

Main responsibility of the Credit Sanctioning department is the thorough, independent and detailed analysis of loan applications in order to comply with the Bank's lending practices and procedures in terms of customers' repayment ability, solvency, credibility and sufficient securitization.

Part of its responsibilities is the monitoring of the quality of the loans above a specific threshold through a number of quality indicators.

- Monitoring implemented lending practices (borrowers' repayment ability, viability, collaterals, source of repayment)
- Reporting of any breaches on lending practices

33. Risk management (continued)

Arrears Management Unit

The Bank established an independent, centralised Arrears Management Unit ('AMU') specialising in the various categories of credit facilities with a view to effectively monitor arrears and troubled cases, as well as, restructurings of borrowers in financial difficulties. The AMU is distinct from the Debt Recovery Unit which deals with non-viable and non-cooperative borrowers.

Debt Recovery Unit

When a customer is classified as non-viable and / or non-cooperative and all alternative options have been investigated and exhausted, then the case is transferred to the Bank's Debt Recovery Unit. Currently, due to the size and quality of the Bank's portfolio, such an in-house unit does not exist. The Bank intends to outsource such cases to specialised companies for the time being.

Approving authorities

Approving authorities apply for all solutions to be suggested to a borrower in arrears (viable / cooperative or non-viable / non-cooperative). All cases should be accompanied with Credit Sanctioning department's and Risk Management Function's opinions when reviewed by the approving authorities.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held, as well as any other credit enhancements.

	2020	2019
	€	€
Balances with Central Bank (*Note 12*)	**41.998.312**	19.645.729
Placements with banks (*Note 13*)	**4.557.610**	3.665.683
Loans and advances to customers, net of loss allowance (*Note 14*)	**271.430.543**	209.622.025
Debt investments at fair value through other comprehensive income, net of loss allowance (*Note 16*)	**2.107.170**	2.215.938
Investments at amortised cost, net of loss allowance (*Note 17*)	**25.452.008**	24.965.166
Other assets (*Note 19*)	**3.236.812**	2.866.253
Total on statement of financial position	**348.782.455**	262.980.794
Undisbursed loan facilities	**25.103.367**	20.756.207
Undrawn overdraft facilities	**11.631.344**	7.959.228
Letters of guarantee	**3.208.261**	5.324.952
Letters of credit	**89.111**	-
Unutilised trade finance limits	**4.021.636**	987.725
Total off-balance sheet position (*Note 37)*	**44.053.719**	35.028.112
Loss allowance on financial guarantees and commitments (*Note 26*)	**(57.235)**	(43.153)
Off-balance sheet position, net of loss allowance	**43.996.484**	34.984.959
Total credit exposure	**392.778.939**	297.965.753

Credit risk concentration

According to the EU Regulation 575/2013, a large exposure is defined as the Bank's exposure to a client or group of connected clients which is equal or exceeds 10% of eligible capital. The Bank should not incur exposures the value of which exceeds 25% of the Bank's eligible capital, after taking into account the effect of credit risk mitigation.

33. Risk management (continued)

The total amount of outstanding credit facilities to members of the Board of Directors and their connected persons or shareholders with direct or indirect ownership of more than 10% of the Bank and their connected persons amounted to €480.605 as at 31 December 2020 (2019: €426.213), as mentioned in Note 35.

As eligible capital will be gradually allocated towards the Bank's operations as required, the Bank monitors allocations so that regulatory limits are not breached.

In addition to policies and procedures, the Bank has set internal concentration guidelines for both the loan portfolio allocations and limits regarding investment allocations in terms of credit quality, counterparty, industry, product type and group of connected customers' concentration.

Collateral and other credit enhancements

As at 31 December 2020, the main types of collateral obtained by the Bank consisted of property mortgages, cash, motor vehicles, as well as, life insurance policies, fixed and floating charges, assigned receivables and contracts of sale. During 2020, there have been no significant changes in the quality of collaterals obtained.

As at 31 December 2020, credit-impaired loans amounted to €314.782 for which collateral held as security consisted of property mortgages of value €287.000, personal guarantees for the amount of €10.000 and life insurances of value €488.395.

Loss allowance movement and stage classification per financial asset type

Loans and advances to customers

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross value	**€**	**€**	**€**	**€**
Retail	**147.675.367**	**1.944.378**	**196.062**	**149.815.807**
Business	**114.417.367**	**8.222.122**	**118.720**	**122.758.209**
	262.092.734	**10.166.500**	**314.782**	**272.574.016**
Loss allowance				
Retail	**210.538**	**58.257**	**90.502**	**359.297**
Business	**476.941**	**256.794**	**50.441**	**784.176**
	687.479	**315.051**	**140.943**	**1.143.473**

The criteria met for the loan facilities classified as Stage 2 and 3 as at 31 December 2020 were:

- Exposures, regardless of origination date, with more than 30 days past due but less than 90 days past due or otherwise classified as Stage 2 - €10.166.500
- Defaulted exposures and material exposures of more than 90 days past due - €314.782

33. Risk management (continued)

	2020			
Loss allowance	**Stage 1 €**	**Stage 2 €**	**Stage 3 €**	**Total €**
As at 1 January	**485.069**	**53**	**43.010**	**528.132**
New assets originated or purchased	**218.250**	**33**	**1.328**	**219.611**
Transfers to Stage 1	**70**	**(8)**	**(62)**	**-**
Transfers to Stage 2	**(315.017)**	**315.017**	**-**	**-**
Transfers to Stage 3	**(129.956)**	**(986)**	**130.942**	**-**
Changes to models and inputs used for ECL calculations	**445.238**	**950**	**(34.043)**	**412.145**
Assets derecognised or repaid	**(16.175)**	**(8)**	**(232)**	**(16.415)**
As at 31 December	**687.479**	**315.051**	**140.943**	**1.143.473**
Individually assessed	**-**	**253.686**	**140.943**	**394.629**
Collectively assessed	**687.479**	**61.365**	**-**	**748.844**
	687.479	**315.051**	**140.943**	**1.143.473**

	2019			
Gross value	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Retail	118.378.677	288.227	189.938	118.856.842
Business	91.276.335	-	16.980	91.293.315
	209.655.012	288.227	206.918	210.150.157
Loss allowance				
Retail	153.215	53	26.030	179.298
Business	331.854	-	16.980	348.834
	485.069	53	43.010	528.132

The criteria met for the loan facilities classified as Stage 2 and 3 as at 31 December 2019 were:

- Exposures, regardless of origination date, with more than 30 days past due but less than 90 days past due - €288.227
- Defaulted exposures and material exposures of more than 90 days past due – €206.918

33. Risk management (continued)

	2019			
Loss allowance	Stage 1 €	Stage 2 €	Stage 3 €	Total €
As at 1 January	383.631	68.542	888	453.061
New assets originated or purchased	282.983	7	972	283.962
Transfers to Stage 1	4.826	(4.764)	(62)	-
Transfers to Stage 2	(45)	45	-	-
Transfers to Stage 3	(16.243)	(24.823)	41.066	-
Changes to models and inputs used for ECL calculations	(154.188)	(16.643)	146	(170.685)
Assets derecognised or repaid	(15.895)	(22.311)	-	(38.206)
As at 31 December	485.069	53	43.010	528.132
Individually assessed	-	-	43.010	43.010
Collectively assessed	485.069	53	-	485.122
	485.069	53	43.010	528.132

Investments at fair value through other comprehensive income

	2020		2019	
Gross value	**Stage 1 €**	**Total €**	Stage 1 €	Total €
Bonds	**2.108.223**	**2.108.223**	2.216.246	2.216.246
Loss allowance				
Bonds	**1.053**	**1.053**	308	308

	2020		2019	
Loss allowance	**Stage 1 €**	**Total €**	Stage 1 €	Total €
As at 1 January	**308**	**308**	452	452
New assets originated or purchased	**-**	**-**	7	7
Changes to models and inputs used for ECL calculations	**752**	**752**	(151)	(151)
Assets derecognised or repaid	**(7)**	**(7)**	-	-
As at 31 December	**1.053**	**1.053**	308	308
Individually assessed	**1.053**	**1.053**	308	308

33. Risk management (continued)

Investments at amortised cost

	2020		2019	
	Stage 1	**Total**	Stage 1	Total
Gross value	**€**	**€**	€	€
Bonds	**25.560.636**	**25.560.636**	24.988.609	24.988.609
Loss allowance				
Bonds	**108.628**	**108.628**	23.443	23.443

	2020		2019	
	Stage 1	**Total**	Stage 1	Total
Loss allowance	**€**	**€**	€	€
As at 1 January	**23.443**	**23.443**	22.533	22.533
New assets originated or purchased	**5.832**	**5.832**	13.587	13.587
Changes to models and inputs used for ECL calculations	**79.400**	**79.400**	(5.528)	(5.528)
Assets derecognised or repaid	**(47)**	**(47)**	(7.149)	(7.149)
As at 31 December	**108.628**	**108.628**	23.443	23.443
Individually assessed	**108.628**	**108.628**	23.443	23.443

Financial guarantees and commitments

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross exposure	**€**	**€**	**€**	**€**
Letters of guarantee	**3.208.261**	**-**	**-**	**3.208.261**
Letters of credit	**89.111**	**-**	**-**	**89.111**
Unutilised trade finance limits	**4.021.636**	**-**	**-**	**4.021.636**
Undisbursed loan facilities	**25.030.117**	**-**	**73.250**	**25.103.367**
Unutilised overdrafts	**11.614.322**	**17.022**	**-**	**11.631.344**
	43.963.447	**17.022**	**73.250**	**44.053.719**
Loss allowance				
Letters of guarantee	**7.388**	**-**	**-**	**7.388**
Letters of credit	**-**	**-**	**-**	**-**
Unutilised trade finance limits	**5.690**	**-**	**-**	**5.690**
Undisbursed loan facilities	**34.195**	**-**	**-**	**34.195**
Unutilised overdrafts	**9.748**	**214**	**-**	**9.962**
	57.021	**214**	**-**	**57.235**

33. Risk management (continued)

Loss allowance	2020 Stage 1 €	Stage 2 €	Total €
As at 1 January	**43.153**	**-**	**43.153**
New assets originated or purchased	**31.084**	**-**	**31.084**
Transfers to Stage 2	**(214)**	**214**	**-**
Changes to models and inputs used for ECL calculations	**(12.122)**	**-**	**(12.122)**
Assets derecognised or repaid	**(4.880)**	**-**	**(4.880)**
As at 31 December	**57.021**	**214**	**57.235**
Individually assessed	**-**	**-**	**-**
Collectively assessed	**57.021**	**214**	**57.235**
	57.021	**214**	**57.235**

Gross exposure	2019 Stage 1 €	Total €
Letters of guarantee	5.324.952	5.324.952
Unutilised trade finance limits	987.725	987.725
Undisbursed loan facilities	20.756.207	20.756.207
Unutilised overdrafts	7.959.228	7.959.228
	35.028.112	35.028.112
Loss allowance		
Letters of guarantee	7.468	7.468
Unutilised trade finance limits	2.010	2.010
Undisbursed loan facilities	25.282	25.282
Unutilised overdrafts	8.393	8.393
	43.153	43.153

Loss allowance	2019 Stage 1 €	Stage 2 €	Stage 3 €	Total €
As at 1 January	53.063	40.247	-	93.310
New assets originated or purchased	25.698	-	-	25.698
Transfers to Stage 1	4.175	(4.167)	(8)	-
Changes to models and inputs used for ECL calculations	(29.472)	(36.060)	8	(65.524)
Assets derecognised or repaid	(10.311)	(20)	-	(10.331)
As at 31 December	43.153	-	-	43.153
Individually assessed	43.153	-	-	43.153

33. Risk management (continued)

Credit quality of loans and advances to customers

	2020	2019
	€	€
Neither past due nor impaired	**265.429.069**	207.238.381
Past due but not impaired:		
▪ Up to 30 days	**6.424.546**	2.416.630
▪ 31 to 60 days	**394.817**	930
▪ 61 to 90 days	**634**	287.298
▪ More than 90 days	**10.168**	-
Impaired	**314.782**	206.918
	272.574.016	210.150.157
Loss allowance on loans and advances to customers (*Note 14*)	**(1.143.473)**	(528.132)
	271.430.543	209.622.025

The credit quality of performing loans and advances to customers that were neither past due nor impaired is managed by the Bank using internal credit ratings.

The Bank has internally developed two credit rating systems, one for individuals and one for businesses. Both systems use qualitative (e.g. occupation, industry, etc.) and quantitative (e.g. days in arrears, length of credit history, etc.) information to calculate a score ranging from 1 to 10, which are then categorised into 5 risk bands in accordance with the table below.

Band	Credit Score Value	Credit Score Risk Band
1	$1 < x \leq 3$	Very low
2	$3 < x \leq 5$	Low
3	$5 < x \leq 7$	Medium
4	$7 < x \leq 9$	High
5	$9 < x \leq 10$	Very high

As per the Bank's Risk Appetite Statement, credit facilities to either physical or legal entities with an internal credit score above 7 at inception are not advisable.

The Bank recognises the inherent limitations of the internal credit rating systems due to their limited operational history. Thus, the Bank will continuously monitor the performance of the credit rating model along with actual performance of borrowers in order to continuously improve the model as new information becomes available.

The Bank uses a logistic model in order to translate the internally developed credit ratings to 12-month probabilities of default. For lifetime probabilities of default, the Bank also uses a logistic model, taking into account the 12-month probability of default as well as specific macroeconomic factors these being GDP, unemployment rate and property price index as issued by the CBC. Where available, the Bank uses forecasts from reputable public and independent sources. For longer periods, extrapolation is used under the assumption of cyclicality. Three distinct scenarios are used for macroeconomic factors, optimistic, neutral and pessimistic, all of equal weighting. Adjustments in weighting might be present on a case-by-case basis for individually assessed exposures.

33. Risk management (continued)

Neither past due nor impaired loans and advances to customers

The table below shows the credit quality of performing loans and advances to customers that were neither past due nor impaired based on the Bank's credit rating system.

	2020	2019
	€	€
Band 1	**80.068.013**	66.962.544
Band 2	**137.869.755**	99.810.921
Band 3	**46.563.458**	40.345.776
Band 4	**927.843**	110.325
Band 5	**-**	8.815
	265.429.069	207.238.381
Loss allowance on loans and advances to customers	**(906.728)**	(480.373)
	264.522.341	206.758.008

The table below illustrates the credit score risk band translation to 12-month probabilities of default.

Credit Score Risk Band	12-month PD ranges
Very low	0.005%-0.816%
Low	0.817%-4.743%
Medium	4.744%-13.01%
High	13.02%-26.11%
Very high	26.12%-40.85%

Past due but not impaired loans and advances to customers

The table below shows the credit quality of performing loans and advances to customers that were past due but not impaired based on the Bank's credit rating system.

	2020	2019
	€	€
Band 1	**697.902**	814.097
Band 2	**2.017.589**	1.660.676
Band 3	**4.111.671**	230.084
Band 5	**3.003**	-
	6.830.165	2.704.857
Loss allowance on loans and advances to customers	**(95.802)**	(47.760)
	6.734.363	2.657.097

Facilities shown as past due but not impaired as at 31 December 2020 represent 25 loan facilities with actual arrears amount of €23.414, 31 overdraft facilities with arrears amount of €58.508 and 980 current accounts with excess amount of €22.102 (2019: 22 loan facilities with actual arrears amount of €14.919 and 297 current accounts with excess amount of €11.699).

33. Risk management (continued)

For facilities which are classified under the “very low” risk band (Band 1), the credit scores are calculated at inception and biennially thereafter. For the remaining facilities, the credit scores are calculated at inception and annually thereafter.

Impaired loans and advances to customers

The table below shows the credit quality of non-performing loans and advances to customers that were considered impaired based on the Bank’s credit rating system. The amount refers to 6 loans and 17 current accounts (2019: 3 loans and 13 current accounts), which have been classified as impaired based on days past due.

	2020	2019
	€	€
Band 1	**16.409**	181.123
Band 2	**240.841**	9.317
Band 3	**57.532**	16.478
	314.782	206.918
Loss allowance on loans and advances to customers	**(140.943)**	-
	173.839	206.918

Collateral on performing loans and advances

The fair value of collateral held by the Bank in respect of performing loans and advances to customers as at 31 December 2020 amounted to €1.226.167.146 (2019: €575.813.534).

Collateral on credit-impaired loans and advances

The fair value of collateral held by the Bank in respect of credit-impaired loans and advances to customers as at 31 December 2020 amounted to €1.501.500 (2019: €191.000).

Credit ratings from independent rating agencies

Balances with the CBC and placements with banks are analysed in accordance with Standard & Poor’s (‘S&P’) rating agency as follows:

	2020	2019
	€	€
AAA to A-	**45.004.794**	22.090.518
BBB+ to BBB-	**1.498.690**	1.002.220
Unrated	**52.438**	218.674
	46.555.922	23.311.412

33. Risk management (continued)

Bonds and other investments portfolios are analysed in accordance to S&P rating agency as follows:

	2020	2019
	€	€
AAA to A-	**20.396.891**	22.183.321
BBB+ to BBB-	**7.162.287**	4.997.783
	27.559.178	27.181.104
Issued by:		
Cyprus government	**2.494.133**	-
Other governments	**6.489.440**	6.950.284
Credit institutions	**6.976.255**	7.410.528
Other financial corporations	**4.330.191**	4.392.769
Non-financial corporations	**7.269.159**	8.427.523
	27.559.178	27.181.104
Classified as:		
Investments at fair value through other comprehensive income	**2.107.170**	2.215.938
Investments at amortised cost	**25.452.008**	24.965.166
	27.559.178	27.181.104

Interest rate risk

Interest rate risk is the risk that (i) the fair value of future cash flows of a financial instrument ('fair value interest rate risk') and (ii) the actual future cash flows of a financial instrument will fluctuate ('cash flow interest rate risk') because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing interest rates of assets and liabilities.

Interest rate risk is measured, monitored and controlled using interest rate sensitivity gap analysis estimating the difference between assets and liabilities for which interest rates are repriced in each time band, separately for each currency. This difference is multiplied by the respective assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to estimate the impact on annual revenues of any changes in interest rates for the next twelve months for each currency.

The Bank is primarily exposed to cash flow interest rate risk since the majority of its interest-bearing financial instruments are variable.

The total difference in PV of economic value from an increase of interest rates by 200bps is €5.554.851 while the total difference in PV of economic value from a decrease of interest rates by 200bps is €565.442.

Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Bank's investments at fair value through other comprehensive income are susceptible to market price risk arising from uncertainties about future prices of the investments (refer to Note 16 for such investments exposed to market price risk).

The Bank has in place a Liquidity Management Policy, with clearly stated qualifying instruments under which the Treasury department abides by and the Risk Management Function monitors.

33. Risk management (continued)

The Bank maintains a Hold to Collect (‘HTC’) and a Hold to Collect and Sell (‘HTCS’) portfolio, amounting to 92% and 8% respectively of the total investments portfolio held by the Treasury department. The 95% 1-year Value at Risk (‘VaR’) of the HTCS portfolio amounts to €16.498 as at 31 December 2020 (2019: €19.906), and as a result, the market risk of the HTCS portfolio is considered low.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Bank’s measurement currency. The Bank is exposed to foreign exchange risk arising from various currency exposures. Exchange rate fluctuations are managed by the Bank’s Treasury department and monitored by the Risk Management Function. The Bank’s foreign exchange exposure is communicated to senior management on a monthly basis and to the Board of Directors through its Risk Committee on a quarterly basis.

There are no materially open positions in any foreign currency, and consequently the impact on net loss and equity of reasonably possible changes in exchange rates is not expected to be significant.

Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank may have to raise funding at higher cost or sell assets at a discount.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or 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.

The Bank has developed monitoring tools for treasury operations in order to manage, amongst others, liquidity risk and cash flows and will continue to improve such tools as its operations become more complex. In addition, the Bank has set a limit structure for treasury placements that promotes diversity of exposures and to assist in monitoring the Bank’s risk profile against its risk appetite.

The Treasury department is responsible for managing liquidity and to ensure compliance with internal and regulatory liquidity policies as well as to provide direction in respect of actions to be taken regarding liquidity availability. The Risk Management Function monitors compliance with such internal and regulatory limits. Additionally, the ALCO reviews the liquidity position on a monthly basis and takes any necessary actions.

Monitoring process

The Treasury department monitors cash flows and highly liquid assets on a daily basis, in addition to the supervisory liquidity ratios, to ensure the uninterrupted operation of the Bank’s activities. The Financial Control department submits to CBC a weekly report on liquidity position.

Main sources of funding

During 2020, the Bank’s main sources of funding were its deposit base, borrowings from CYPEF and central bank funding through the Eurosystem monetary policy operations. As at 31 December 2020, central bank funding amounted to €18.000.000 in the form of TLTRO III (2019: €9.300.000). In addition, for prudency and in order to have access to various liquidity sources, the Bank maintains an available credit line with CBC under the relevant Main Refinancing Operations framework.

The central bank funding and the amount of the credit line available to the Bank is linked / dependent to the value of assets declared by the Bank for such purposes. As a result, the Bank has declared assets with a nominal value of €19.650.000 as at 31 December 2020 (2019: €11.600.000). Part of these assets declared is dedicated for purposes of securing TLTRO III, with any difference remaining being considered as a credit line available to the Bank upon request. The available credit line as at 31 December 2020 was €1.885.142 (2019: €1.916.311).

33. Risk management (continued)

Encumbered and unencumbered assets

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 Bank for further collateral or liquidity requirements. 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 be potentially pledged and those that are not readily available to be pledged.

The table below presents an analysis of the Bank's encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes.

2020	**Carrying value of encumbered assets €**	**Fair value of encumbered assets €**	**Carrying value of non-encumbered assets €**	**Fair value of non-encumbered assets €**
Debt investments at FVOCI	**602.688**	**602.688**	**1.504.482**	**1.504.482**
Debt investments at amortised cost	**18.440.831**	**19.063.773**	**7.011.177**	**7.159.591**
	19.043.519	**19.666.461**	**8.515.659**	**8.664.073**
Of which Central Bank eligible for encumbrance	**19.043.519**	**19.666.461**	**5.174.951**	**5.242.256**
2019				
Debt investments at FVOCI	302.403	302.403	1.913.535	1.913.535
Debt investments at amortised cost	9.891.584	10.179.342	15.073.582	15.301.938
	10.193.987	10.481.745	16.987.117	17.215.473
Of which Central Bank eligible for encumbrance	10.193.987	10.481.745	13.529.984	13.726.675

Liquidity ratios

The Bank calculates the Liquidity Coverage Ratio ('LCR') based on the Delegated Regulation (EU) 2015/61 and submits it to the CBC on a monthly basis. The LCR is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress scenario lasting for 30 calendar days. During 2020 the minimum requirement was 100% (2019: 100%).

The LCR ratio was as follows:

	2020 %	2019 %
End of the reporting period	**288,08**	344,41
Average for the year	**463,45**	601,87
Maximum ratio for the year	**628,46**	851,22
Minimum ratio for the year	**288,08**	344,41

As at 31 December 2020, the Bank was in compliance with the above regulatory liquidity requirements.

33. Risk management (continued)

Additionally to the LCR, the Bank calculates and submits to CBC the Net Stable Funding Ratio ('NSFR') on a quarterly basis. NSFR, defined as the ratio of available stable funding relative to required stable funding, is not yet introduced as a regulatory requirement. The minimum requirement of NSFR will be 100%. At 31 December 2020, the Bank's NSFR was at 121% (2019: 121%).

Analysis of financial liabilities by remaining contractual maturity

	Carrying amount	Contractual cash flows	On demand and up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€	€	€	€	€	€	€
2020							
Customer deposits	**296.260.609**	**296.336.474**	**223.866.060**	**17.688.159**	**44.370.366**	**10.411.889**	**-**
Funding from central banks	**18.000.000**	**18.000.000**	**-**	**-**	**4.650.000**	**13.350.000**	**-**
Other borrowings	**8.124.749**	**8.333.340**	**13.250**	**-**	**624.769**	**3.300.586**	**4.394.735**
Lease liabilities	**989.645**	**1.133.400**	**17.200**	**34.400**	**179.400**	**902.400**	**-**
Provisions and other liabilities	**2.683.417**	**2.683.417**	**1.438.553**	**128.469**	**315.025**	**57.235**	**744.135**
	326.058.420	**326.486.631**	**225.335.063**	**17.851.028**	**50.139.560**	**28.022.110**	**5.138.870**
2019							
Customer deposits	224.584.481	224.701.884	159.047.864	16.447.531	48.554.814	651.675	-
Funding from central banks	9.300.000	9.300.000	-	-	-	9.300.000	-
Other borrowings	9.275.340	9.638.181	359.108	-	548.303	2.889.436	5.841.334
Lease liabilities	1.106.651	1.273.568	15.500	32.734	164.534	903.400	157.400
Provisions and other liabilities	4.025.036	4.025.036	2.956.757	212.691	309.025	43.153	503.410
	248.291.508	248.938.672	162.379.229	16.692.956	49.576.676	13.787.664	6.502.144

The table above presents the Bank's financial liabilities based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date. Repayments for which notice should be given, have been placed in the relevant time bands, as if notice had been given on 31 December. The amounts in this table may not be equal to the amounts in the statement of financial position since the table above presents all cash flows (including interest) on an undiscounted basis.

33. Risk management (continued)

Analysis of contingent liabilities and commitments by remaining contractual maturity

	Contractual cash flows €	On demand and up to 1 month €	Between 1 and 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €
2020						
Letters of guarantee	**3.208.261**	**137.990**	**107.776**	**1.475.160**	**1.234.072**	**253.263**
Letters of credit	**89.111**	**-**	**-**	**89.111**	**-**	**-**
Unutilised trade finance limits	**4.021.636**	**4.021.636**	**-**	**-**	**-**	**-**
Undisbursed loan facilities	**25.103.367**	**25.103.367**	**-**	**-**	**-**	**-**
Undrawn overdraft facilities	**11.631.344**	**11.631.344**	**-**	**-**	**-**	**-**
	44.053.719	**40.894.337**	**107.776**	**1.564.271**	**1.234.072**	**253.263**
2019						
Letters of guarantee	5.324.952	324.591	550.087	3.577.411	654.529	218.334
Unutilised trade finance limits	987.725	987.725	-	-	-	-
Undisbursed loan facilities	20.756.207	20.756.207	-	-	-	-
Undrawn overdraft facilities	7.959.228	7.959.228	-	-	-	-
	35.028.112	30.027.751	550.087	3.577.411	654.529	218.334

The table above presents the Bank's contingent liabilities and commitments to lend based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date or the date assumed to materialise into a liability for the Bank to pay. The main assumptions used in determining the appropriate time band for classification are set out below:

- Letters of guarantee are classified based on their contractual maturity date.
- Unutilised trade finance limits do not carry a contractual maturity date and are classified based on the earliest date by which they could be utilised.
- Undisbursed loan facilities are classified based on the earliest date by which they could be withdrawn assuming any contractual terms set by the Bank at the time of the loan agreement have been satisfied.
- Undrawn overdraft facilities are classified as on demand given that there are no restrictions in respect of their utilisation.

Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, conduct and reputational risk.

The Bank understands the importance of having high standards of corporate governance and efficient as well as effective management practices in place that will safeguard it from risks arising due to inadequate or failed internal processes, people and systems or from external events. The management of operational risk is mainly focused on a strong internal control governance framework.

Regulatory risk

The Bank's operations are supervised by the CBC and the European Central Bank ('ECB') as a supervisory body for all the banks in the Eurozone area (referred to as the Single Supervisory Mechanism, or SSM). The ECB exercises its supervisory responsibilities in cooperation with the national central banks. Future changes in the legal or regulatory obligations as a result of arrangements made by either ECB or CBC, may impact the Bank's operations.

33. Risk management (continued)

Intensity of competition

The Cyprus banking sector has emerged from a severe crisis in 2013, slowly recovering and showing signs of growth since 2017 when most banks returned to profitability. Despite the overall positive outlook, the challenges for the mainstream banks remain, with the high level of non-performing loans and the modified foreclosure legislation causing uncertainty. Following key legislations, the aim for debt restructuring is now a priority for most banks in Cyprus.

Reduction of non-performing loans over the last few years was mostly due to transfer or sale of non-performing loan portfolios by banks to credit-acquiring companies. Legal foundation for this new type of companies and acquisition of non-performing loan portfolio was through the introduction of the Sale of Credit Facilities and Related Matters Laws of 2015 and 2018.

During the last few years there has been increased consolidation in the local banking market with banking institutions closing down or being acquired by other institutions. The continuing consolidation is expected to create a more concentrated sector with intense competition on traditional retail and corporate banking products.

The operational environment of the Bank is highly competitive. Competition arises from commercial banks and international banking units. Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Bank, may create pressure on the Bank's profitability.

Litigation risk

Litigation risk is the risk of financial loss, interruption of the Bank's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Bank to execute its operations.

Political and other risks

External factors which are beyond the control of the Bank, such as political developments and government actions (i.e. the ongoing unresolved political issue in Cyprus, political and social unrest or military conflict in neighbouring countries) may adversely affect the operations of the Bank, its strategy and prospects. Furthermore, the general economic environment prevailing in Cyprus and internationally may affect the Bank's operations to a great extent. Economic conditions such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Bank.

Given the above, the Bank recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which may result in a negative impact on Bank's activities, operating results and position.

34. Capital management

The main regulator that sets and monitors capital requirements for the Bank is the Central Bank of Cyprus ('CBC').

As from 1 January 2014, the new Basel III Framework known as Capital Requirement Regulation ('CRR') 575/2013 / Capital Requirement Directive IV ('CRD IV') dated 26 June 2013 became effective. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.

In November 2016, the European Commission published its first proposals for revised rules to calibrate capital and liquidity requirements, in the form of a Directive and a Regulation known as CRD V and CRR II, as well as amendments to the Bank Recovery and Resolution Directive, to implement global standards for total loss absorbing capital.

Basel III Framework comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – Internal capital and liquidity assessment and supervisory review process
- Pillar 3 – Market discipline

Pillar 1 – Minimum capital requirements

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Bank uses the Standardised Approach for the calculation of minimum capital requirements against credit risk and the financial collateral simple method for credit risk mitigation purposes. The Simplified Approach is used for the calculation of own fund requirements for commodity risk for each commodity exposure category. The Bank adopts the Basic Indicator Approach for the calculation of capital regarding operational risk.

Pillar 2 – Supervisory review process

Pillar 2 aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. The process can be divided into two major components:

- An internal assessment by the institution on internal governance, risk management, stress testing frameworks, business model and strategy, known as Internal Capital and Liquidity Adequacy Assessment Process ('ICAAP / ILAAP')
- A Supervisory Review and Evaluation Process ('SREP'), of which its key purpose is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms, as well as capital and liquidity to ensure a sound management and coverage of their risks to which they are or might be exposed to. This includes risks arising from stress testing exercises and risks an institution may pose to the financial system.

The Bank will prepare and submit its ICAAP / ILAAP report for the year 2020 by June 2021. The Bank has received its latest SREP communication in December 2020 which noted that the CBC has adopted, in line with European Banking Authority's statement of 22 April 2020, a pragmatic approach towards SREP for the 2020 cycle, which focuses on the ability of the Bank to handle the challenges of COVID-19 crisis and its impact on their current and prospective risk profile. Furthermore, it noted that previous SREP decisions as communicated by CBC in January 2020 are not superseded nor amended and remain in force. Namely the latest SREP requirement has been set at 4,5% (2019: 4,5%), raising the Total Capital Ratio requirement to 15% without Pillar 2 Capital Guidance and to 15,5% with Pillar 2 Capital Guidance.

34. Capital management (continued)

Pillar 3 – Market discipline

Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on EU Regulation 575/2013, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders.

Pillar 3 disclosures are published on the Bank's website in conjunction with the financial statements.

Capital position as per CRR / CRD IV

At 31 December 2020, the Bank fully meets the minimum capital requirements.

The information presented below represents the Bank's capital position under CRR / CRD IV, including the application of the transitional arrangements as set by the CBC.

	31 December 2020 €	31 December 2019 €
Common Equity Tier 1 capital	**34.538.841**	26.466.867
Additional Tier 1 capital	**-**	-
Tier 1 capital	**34.538.841**	26.466.867
Tier 2 capital	**-**	-
Total Regulatory Capital	**34.538.841**	26.466.867
Risk weighted assets - credit risk	**175.905.384**	133.544.602
Risk weighted assets - operational risk	**7.589.763**	4.309.994
Risk weighted assets - market risk	**-**	-
Total Risk Weighted Assets	**183.495.147**	137.854.596
Common Equity Tier 1 ratio	**18,82%**	19,20%
Tier 1 ratio	**18,82%**	19,20%
Total capital ratio	**18.82%**	19,20%
Minimum Ratios as per the CRR / CRD IV		
Common Equity Tier 1 ratio	**7,00%**	7,00%
Tier 1 ratio	**8,50%**	8,50%
Total capital ratio	**10,50%**	10,50%

34. Capital management (continued)

Taking into consideration the recently received SREP requirement, the Total Capital Ratio requirement as of 1 January 2021 is set at 15% without Pillar 2 Capital Guidance and at 15,5% with Pillar 2 Capital Guidance.

As a response to COVID-19 impact, concessions have been announced by the European Central Bank with regards to the capital adequacy and liquidity ratios whereby banks are temporarily able to operate below the Pillar II ('P2G') equity buffer, CCB, Countercyclical Capital Buffer ('CCyB'), as well as, the liquidity coverage ratio ('LCR'). In addition, it was decided to early implement the change resulting from the adoption of the CRDV on Pillar II ('P2R') supervisory requirements, allowing it to be covered by additional Tier 1 funds ('AT1') and Tier 2 funds and not only by Common Equity Tier 1 funds.

The Board of Directors is intensifying its efforts to develop the operations of the Bank in a manner consistent with the expectations of its stakeholders and regulators. As part of these efforts, amongst others, it has approved the revised 3-year business plan which will allow the Bank to fulfil its business objectives and become profitable. The business plan incorporates the impact of COVID-19 and the disruption it has caused to the Bank's customers, depositors and staff. In this respect, the business plan has considered downside scenarios and has used conservative economic inputs to derive expectations for its short to medium-term strategy.

35. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The Bank's complete accounting policy regarding these matters is presented in Note 2.17.

The Bank is a subsidiary of Ancoria Investments Plc, which is incorporated in Cyprus and holds 100% of the Bank's issued share capital. Ancoria Investments Plc is owned by several legal entities as well as natural persons, and has no other significant activity, assets or liabilities other than its holding in the Bank.

The shareholders of Ancoria Investments Plc as at the date of signing of these financial statements and as at 31 December 2020 and 2019 are listed below:

Name / relationship	**Percentage of Share Capital in the parent company**	
	Date of signing this report and 31 December 2020	31 December 2019
	%	%
Bo Sievert Larsson	**41,00**	41,00
Ancoria Insurance Ltd	**20,00**	20,00
Sievert Larsson Scholarship Foundation	**19,18**	19,18
Trading Point Holdings Ltd	**9,80**	9,80
Other shareholders	**10,02**	10,02
	100,00	100,00

35. Related party transactions (continued)

Participation of directors in the Company's share capital

The percentage of share capital of the Bank held indirectly by each member of the Board of Directors (through ownership interest in the immediate parent company) and their connected persons, as at 31 December 2020 and 2019 were as follows:

Name	31 December 2020 %	31 December 2019 %
Ioannis Loizou	**3,40**	3,40
Bo Sievert Larsson	**41,00**	41,00
Charidemos Theocharides	**0,23**	0,23
Charalambos Panayiotou	**1,39**	1,39

Connected persons include (i) spouses, (ii) minor children and (iii) companies in which company directors / other key management personnel hold, directly or indirectly, at least 20% of the voting power at a general meeting, or act as executive director or exercise control over the entities, in any manner.

Further to the above shareholdings, the Sievert Larsson Scholarship Foundation, founded by Mr. Bo Sievert Larsson, indirectly holds 38,6% (2019: 38,6%) of the Company's issued share capital.

	2020 €	2019 €
Deposits		
Members of the Board of Directors and key management personnel	**1.289.824**	941.954
Parent company	**18.433**	24.164
Entity with significant influence	**2.052**	2.054
Other related parties	**5.418.511**	4.563.551
	6.728.820	5.531.723
Interest expense	**6.536**	6.259

	2020 €	2019 €
Loans and advances		
Members of the Board of Directors and key management personnel	**480.605**	343.889
Other related parties	**-**	82.324
	480.605	426.213
Interest income	**9.828**	3.537

The above table does not include balances for members of the Board of Directors and their connected persons who resigned during the year. Interest income and expense is disclosed for the period during which they were members of the Board of Directors.

The amount of deposits placed by other related parties includes deposits from Ancoria Insurance Public Ltd (indirect shareholder) in the amount of €3.755.649 (2019: €2.874.128), as well as, deposits by members of the Board of Directors of Ancoria Insurance Public Ltd.

35. Related party transactions (continued)

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 guarantees and commitments to lend amounting to €243.573 (2019: €33.600).

During 2020, the Bank recognised a total income amounting to €16.560 (2019: €16.560) as a result of a use of space agreement with Ancoria Insurance Public Ltd. This amount is shown under 'Other income' line.

All transactions with non-executive members of the Board of Directors, the Bank's shareholders and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing.

Fees and emoluments of Directors and key management personnel

	2020	2019
	€	€
Non-executives		
Membership fees (*Note 10*)	**147.249**	143.537
Executives		
Salaries and other short-term benefits	**327.850**	324.405
Employer's contributions to pension plan	**9.583**	19.879
Other employer's contributions	**24.988**	21.560
	362.421	365.843
	509.670	509.381

The Bank considers only the two Executive directors as key management personnel. The above table presents fees and emoluments towards members of the Board of Directors and key management personnel for the period during which they were members of the Board of Directors and assigned key management personnel, including those who resigned during the year.

Receivables from parent company (*Note 19*)

		2020	2019
Name	**Nature of transactions**	**€**	€
Ancoria Investments Plc	Current account balance	**226.691**	126.860

The balance due from the parent company is interest free and does not have a specified repayment date. It concerns amounts paid on behalf of the parent company.

36. Operating environment

Following 5 consecutive years of reported growth, Cyprus' economy declined by 5.1% in 2020 according to the Cyprus Statistical Service. The decline was primarily driven by trade and tourism, construction, manufacturing and entertainment services sectors, to a great extent due to the long-term suspension of many business operations as a result of efforts made at limiting the spread of COVID-19. A large shrinkage of GDP occurred in the second quarter of 2020, time at which the pandemic first appeared, dropping by 13.9%, while the third and fourth quarters showed some recovery, limiting GDP losses to approximately 6.4% according to the International Monetary Fund.

36. Operating environment (continued)

Despite the estimate of an increase in unemployment, the index remained relatively stable. Measures taken by the Cyprus Government to support businesses and workers by providing a wide range of allowances were successful in keeping the index low. As a result, the unemployment rate increased modestly to 7.6% in 2020 according to Eurostat, from 7.1% in 2019, while the European Union's corresponding index was at 8.9%.

Consumer prices declined by 0.6% on average in 2020, partly due to the hit sustained by domestic demand caused by the COVID-19 pandemic and the cut to the VAT rate for the tourism and hospitality sector. The current fiscal and monetary stimulus have not led to higher prices and inflation is likely to rise only modestly in the second half of 2021 as economic activity accelerates and the temporary reduction in the VAT income is reversed. Specifically, inflation for 2020 is expected to be in the order of -0.6% and is estimated to reach 1% by 2021.

The Cyprus Government's fiscal package in 2020 in response to the COVID-19 pandemic was at approximately 4.5% of GDP and included income support for households, wage subsidies for businesses and grants to small businesses and self-employed individuals. Additionally, a loan moratorium for interest and principal repayments on loans to individuals and businesses was introduced until the end of 2020. In January 2021, a second moratorium for the period until 30 June 2021 was launched for borrowers impacted by the second lockdown. Furthermore, an interest rate subsidisation scheme for new housing and business loans was put in place in 2020 for loans granted as of 1 March 2020 until 31 December 2020 subject to conditions, which was later extended to 31 December 2021 with eligible amounts increased considerably, especially for businesses and self-employed individuals.

As a result, public finances deteriorated noticeably in 2020. According to the Cyprus Statistical Service, it is estimated that the budget deficit deteriorated from a surplus of 1.5% of GDP in 2019 to a deficit of 5% of GDP in 2020. Given the additional support to the economy that the Cyprus Government has committed to provide as a response to the second wave of the pandemic, the trend of lower revenues and higher spending is expected to continue through the first half of 2021 at least. The budget position is expected to improve and the deficit to gradually shrink in the medium term as the economy recovers and spending is increased.

Public debt currently amounts to €24.8 billion, or 119.5% of GDP. However, this is seen as temporary driven by fiscal measures to mitigate the effects of COVID-19. The underlying fundamentals remain strong and the downward trajectory is expected to resume as growth returns.

According to the European Commission's forecast, the real GDP of Cyprus' economy will grow by 3.2% in 2021, despite the losses it sustained in 2020 due to the pandemic. This is mainly because the restrictive measures in the economy concern a smaller proportion of economic activity and are now more targeted. Tourism, which has contracted by 85% in 2020, is expected to be one of the main factors in the recovery of the economy in 2021. The initiation of vaccinations both at local level and in the main countries of tourism origin such as the United Kingdom, Israel and Russia are expected to cover much of the losses incurred in 2020. At the same time, the vaccination plan at local level is expected to allow for an increase in business activity with private consumption as the main driver. In 2022 it is estimated that real GDP will be in the order of 3.1%, reaching pre-pandemic levels 2022.

In order to deal with the consequences of the pandemic, the Cyprus Government is expected to receive significant monetary backing from the European Union through a number of schemes in the form of grants, lending and financial support through the SURE programme aimed to support job retaining. Specifically, Cyprus is expected to benefit from the European Union's €750 billion Next Generation funds. On a net basis, Cyprus expects to obtain grants of up to €1.1 billion or about 5% of GDP, in the budget period 2021-2027, which are, however, subject to the implementation of long-delayed structural reforms in the judiciary and public administration sectors.

36. Operating environment (continued)

The Cyprus sovereign is rated by international rating agency Standard & Poor's as BBB- with a stable outlook since September 2018. The rating and outlook were affirmed in March and September 2020 and March 2021. Similarly, Fitch maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020 and March 2021. Finally, Moody's maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. More recently in January 2021, Moody's issued a revised credit opinion on the Cyprus sovereign, maintaining the positive rating outlook.

The risks that Cyprus' economy is expected to face in 2021 are directly related to the progress of the pandemic's containment. The vaccination programme at both local and global level is a key factor to enable uninterrupted business activity. Cyprus is expected to receive the first tourist surge by the end of the second quarter of 2021, leading to the restart of tourism industry's operations.

The abolishment of the Cyprus Investment Programme ('CIP') at the end of 2020, which was one of the pillars of construction development over the years post the 2013 crisis, may impact negatively on GDP projections. Similarly, the United Kingdom's full withdrawal from the European Union at the end of 2020 may affect the economic activities between the two countries, especially in relation to trading and tourism.

Actions at European level to overhaul the tax system in Europe may also adversely impact the favourable tax regime of Cyprus, while developments at the political level may affect the economic climate accordingly.

<u>Banking environment</u>

During the year, the banking system quickly adapted to the new circumstances as a result of the COVID-19 outbreak, actively participating in addressing the needs of their customers by offering solutions such as loan restructurings, suspension of loan instalments and collateral divestments and participation in the state interest rate subsidy scheme for new housing and business loans.

Despite rarely employing any remote working arrangements for staff in the past, banks were frontrunners in implementing a successful combination of staff working remotely and on premises. At the same time, the majority of the banking system was able to offer digital solutions to their customers, enabling them to process their banking transactions though digital means without the need to visit a branch. It has now become apparent that the digital transformation of the banking system is a necessity and will be a crucial factor to the successful restart post COVID-19.

The response of the European Central Bank ('ECB') to the COVID-19 pandemic has been supportive towards banks across the European Union. In addition to negative interest rates and a renewed quantitative easing, the ECB introduced the Pandemic Emergency Purchase Programme ('PEPP') and increased its refinancing operations for commercial banks, while easing the rules around its collateral framework. In December 2020, the ECB provided further incentives including a €500 billion increase in the size of the PEPP to reach €1.85 trillion and extending its duration until March 2022.

Despite the COVID-19 pandemic and the low to zero interest rates offered, in some cases even negative rates imposed, the banking system still maintains significant excess liquidity indicative of its credibility and level of confidence by depositors.

Banks are continuing their deleveraging efforts, resulting in a reduction of lending volumes in the banking system. The main reasons for the decrease are:

- the sales of loans to non-performing loan management companies
- the management of non-performing loans by specialised companies in this area
- the intensive efforts of banks to settle non-performing loans primarily through debt-asset swaps

36. Operating environment (continued)

As a result of these actions, the non-performing exposures index fell to 19% compared to 45% 3 years ago. Despite the decline in non-performing loans, the challenges of the banking system remain as high levels of non-performing loans and private debt persist. Additionally, excess liquidity in a negative interest rate environment continues to have an adverse impact on banks' profitability.

Furthermore, the gradual implementation by 2025 of the new European requirements to meet the Minimum Requirement for Own Funds and Eligible Liabilities (‘MREL’) is expected to have an impact on banks' future strategic plans.

The Bank’s management recognises the difficulties involved in predicting all developments which could have an impact on the Cyprus economy and consequently the effect, if any, that they could have on the future financial performance, cash flows and financial position of the Bank. The Bank’s management will closely monitor all future developments in the economic and political environment in which it operates and take appropriate measures.

37. Contingent liabilities, capital commitments and off-balance sheet financing

Commitments and contingent liabilities consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on-balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Bank (Note 33).

An analysis of the Bank’s off-balance sheet items is provided below:

	2020	2019
	€	€
Contingent liabilities		
Letters of guarantee	**3.208.261**	5.324.952
Letters of credit	**89.111**	-
Unutilised trade finance limits	**4.021.636**	987.725
	7.319.008	6.327.677
Commitments		
Undisbursed loan facilities	**25.103.367**	20.756.207
Undrawn overdraft facilities	**11.631.344**	7.959.228
	36.734.711	28.715.435
	44.053.719	35.028.112

Capital commitments

As at 31 December 2020 and 2019, there were no significant commitments for contracted capital expenditures of the Bank other than the residual amount of €300.000 owed towards the initial owner (pre 2 December 2016) of the own property in Limassol, which will be rendered due for settlement upon issuance of the Certificate of Final Approval by the competent authorities and the transfer of the title deed in the name of the Bank. The aforementioned amount carries interest at 2% per annum as of 1 July 2018.

Legal proceedings

As at 31 December 2020 and 2019, there were no pending litigation, claims or assessments against the Bank.

38. Events after the reporting date

As the second wave of the pandemic continued to adversely affect the economy well within the fourth quarter of 2020, the Cyprus Government continued implementing measures to sustain economic activity and retaining of jobs. As part of these measures, on 15 January 2021, a second moratorium for interest and principal repayments on loans to individuals and businesses was announced with the following conditions:

- Suspension of loan repayments for six (6) months, hence until 30 June 2021;
- Applications had to be submitted by 31 January 2021 and would be either be approved or rejected by the relevant credit institution by 28 February 2021;
- Credit facilities which (i) were entered into after 30 March 2020; or (ii) were in default for a period exceeding 30 days from 31 December 2020; or (iii) had already benefited nine (9) months of interest and principal repayments suspension as per the first moratorium announced in 2020 were not eligible.

Eligible borrowers for the second moratorium were the following:

- Credit facilities, irrespective of the purpose, granted to individuals or small to medium-sized enterprises that were secured by mortgage over a primary residence which did not exceed a market value of €350.000;
- Business purpose credit facilities to companies and self-employed individuals, whose businesses had been mandatorily suspended pursuant to the decree of the Ministry of Health dated 8 January 2021;
- Business purpose credit facilities to companies within the hotel industry;
- Credit facilities falling within any one of the above categories, the beneficiaries of which had submitted an interest on the basis of the first moratorium of 2020 and their application was approved by the relevant credit institution, yet the nine (9) month period had not elapsed since the start of the suspension. The debtors falling within this category, were in a position to apply for a suspension of interest and principal repayments for a total period of nine (9) months.

On 19 February 2021, the extension of the interest rate subsidisation scheme for new housing and business loans until 31 December 2021 was announced along with an increase in maximum eligible amounts. For new housing loans, the maximum eligible amount was raised to €400.000 (previously €300.000) and for new business loans the maximum eligible amount was raised as follows:

- €1.8 million per business or self-employed individual (previously €800.000);
- €270.000 per business or self-employed operating in the fishing and aquaculture sectors (previously €120.000).
- €225.000 per business or self-employed operating in the primary production of agricultural products (previously €100.000).

The extension of the scheme's period and changes in the maximum eligible amounts for new business loans were subject to the approval of the European Commission in relation to state aid regulations. The said approval was granted on 18 March 2021.

There are no other material events after the reporting period, which have a bearing on the understanding of financial statements.

Independent auditor's report on pages 92 to 96.

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Independent Auditor's report

To the Members of ANCORIA BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ancoria Bank Limited (the 'Bank'), which are presented in pages 7 to 91 and comprise the statement of financial position as at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, 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.

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 remained independent of the Bank throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 judgment, 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.

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Independent Auditor's report (continued)

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud (continued)

<table>
<tr><th>Key audit matter</th><th>How we examined the key audit matter</th></tr>
<tr><th colspan="2">Loss allowance for loans and advances to customers</th></tr>
<tr><td>
Gross loans and advances to customers amounted to €272.574.016 as at 31 December 2020 (€210.150.157 as at 31 December 2019), while loss allowance on loans and advances to customers as at 31 December 2020 amounted to €1.143.473 (€528.132 as at 31 December 2019).
The Bank determines loss allowances on loans and advances to customers to reflect expected credit losses, on both an individual as well as a collective basis.
The measurement of loss allowances due to impairment on loans and advances to customers, is considered a key audit matter, as the determination of the assumptions used involves critical Management judgments and accounting estimates with a high level of subjectivity and complexity. Such subjectivity and complexity has increased in the current year, due to uncertainty associated with COVID-19 and its consequential implications on the Global as well as the Cypriot economy.
Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include:

Criteria used to classify loans in stages, taking into account the impact of the pandemic COVID-19, and government measures to support borrowers in the form of payment suspensions (moratoria).
Accounting interpretations and modelling assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer including Assumptions regarding Probability of Default, Loss Given Default and Exposure at Default, taking into account the impact of the pandemic COVID-19.
Inputs and assumptions used to estimate the impact of multiple economic scenarios and the weighted probabilities applied to them.
Assumptions for determining the expected future cash flows of the credit-impaired exposures, which are assessed on an individual basis, including the choice of the assessment method and assumptions for the valuation of collateral and the time of its liquidation, in particular in the context of the uncertainty caused by the pandemic COVID-19.

Management has provided further information on the above in Notes 2.9, 3.2 and 33 to the financial statements.
</td><td>
Based on our risk assessment and following a risk-based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter and carried out, inter alia, the following audit procedures:

We compared the credit granting process of the Bank with the Central Bank of Cyprus' requirements (based on applicable regulations and directives) to identify and assess the impact of any discrepancies.
We evaluated the design of the controls in place for the credit granting process to determine whether they have been effectively implemented and operated. We assessed the appropriateness of methodologies and policies adopted by Management with respect to impairment of loans and advances to customers in accordance with IFRS 9,''Financial Instruments''.
We evaluated the design of internal controls relevant to the audit to determine whether they have been effectively implemented, including controls around the methodologies applied, risk models employed, significant assumptions employed by Management, accuracy and completeness of data inputs and model calculations as well as the classification of loans in stages, taking into account the criteria for inclusion in government measures to support borrowers in the form of payment suspensions (moratoria). Where necessary, we carried out our audit procedures with the support of internal credit risk and information technology experts.
With the support of internal experts on credit risk, we conducted an independent assessment of accumulated impairment losses on loans and advances to customers subject to collective assessment in accordance with the Bank's methodology, and a comparison of our own assessment with the results of the Bank's collective impairment assessment. Our independent assessment included the assessment of probability of default, loss given default and exposure at default.
We assessed the reasonableness and appropriateness of the macroeconomic variables used in the models, the scenarios and probability weights applied to them, taking into account the effects of the COVID-19 pandemic.
We assessed the adequacy of the criteria applied by management and the significant assumptions used regarding the classification of loans in stages in accordance with IFRS 9. Our work included the evaluation of the criteria set by Management in order to identify in a timely manner the significant increase in credit risk and the inability to pay. We received the relevant evidence and examined on a sample basis the timely recognition of exposures with a significant increase in credit risk and the timely recognition of impaired exposures.
On a sample basis, we assessed the reasonableness of significant assumptions used in the measurement of impairment of individually assessed exposures, including valuation of collaterals as well as assumptions used for estimating future discounted cash flows, taking into account the effects of COVID-19 pandemic.
We assessed the completeness and accuracy of the related disclosures in accordance with the provisions of the relevant accounting standards and the regulatory expectations of COVID-19 pandemic specific disclosures.

The above procedures were completed in a satisfactory manner.
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</table>

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Independent Auditor's report (continued)

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud (continued)

Key audit matter	How we examined the key audit matter
General Information Technology Control Systems and internal controls over financial reporting	
The Bank's financial reporting processes are highly dependent on Information Technology ("IT") systems supporting automated accounting and reconciliation procedures, thus leading to a complex IT environment, pervasive in nature in which a significant number of transactions are processed daily, across numerous locations. This is a key audit matter since it is important that controls over access security, system change control and data centre and network operations, are properly designed and operate effectively to ensure complete and accurate financial records / information.	Based on our risk assessment, we evaluated the design of General Information Technology Controls relevant to financial reporting and tested the operating effectiveness of those controls. Our audit procedures included the assessment of access rights over applications, operating systems and databases, the process followed over changes made to information systems, as well as data centre and network operations. Where deemed necessary, we carried out our procedures with the support of our internal information technology systems specialists. In summary, our key audit procedures included, among other, testing of: ▪ User access provisioning and de-provisioning process ▪ Privileged access to applications, operating systems and databases ▪ Change management procedure over applications, operating systems and databases (user request, user acceptance testing and final approval for promotion to production) ▪ Data centre and network operations. The above procedures were completed in a satisfactory manner.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report 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 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Independent Auditor’s report (continued)

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 judgment 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 Bank’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 Bank’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 Bank 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements of the current period and are therefore the key audit matters.

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Independent Auditor's report (continued)

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 Bank on 20 February 2015 by the Bank's Board of Directors. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 6 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 Bank, which we issued on 11 June 2021 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 Bank 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 Bank 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 Bank'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 Alexis Agathocleous.

Agathocleous

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of
Deloitte Limited
Certified Public Accountants and Registered Auditors

Nicosia, 11 June 2021

Credit Risk

TABLE A: Analysis of the credit portfolio according to performance status for balances

As at 31 December 2020

	Gross carrying amount				Accumulated impairment			
		Of which non-performing exposures	Of which exposures with forbearance measures			Of which non-performing exposures	Of which exposures with forbearance measures	
				Of which non-performing exposures				Of which non-performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances	**272.574**	**315**			**1.143**	**141**		
General governments								
Other financial corporations	**7.069**				**36**			
Non-financial corporations	**115.689**	**119**			**748**	**50**		
Of which: Small and Medium-sized Enterprises[2]	113.503	119			743	50		
Of which: Commercial real estate[2]	74.104	78			389	31		
Non-financial corporations by sector								
Agriculture, forestry and fishing	3.688				18			
Manufacturing	6.377				11			
Construction	20.653				69			
Wholesale and retail trade	19.552	1			244			
Real estate activities	40.478	16			219			
Professional and scientific services	6.587				27			
Accommodation and food service activities	3.855	101			48			
Other sectors	14.499	1			112			
Households	**149.816**	**196**			**359**	**91**		
Of which: Residential mortgage loans[2]	111.857	85			268	63		
Of which: Credit for consumption[2]	18.899	30			54	12		

Credit Risk (continued)

TABLE A: Analysis of the credit portfolio according to performance status for balances (continued)

As at 31 December 2019

	Gross carrying amount				Accumulated impairment			
		Of which non-performing exposures	Of which exposures with forbearance measures			Of which non-performing exposures	Of which exposures with forbearance measures	
				Of which non-performing exposures				Of which non-performing exposures
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances	**210.150**	**207**			**528**	**43**		
General governments								
Other financial corporations	**925**				**4**			
Non-financial corporations	**90.368**	**17**			**345**	**17**		
Of which: Small and Medium-sized Enterprises[3]	87.843	17			340	17		
Of which: Commercial real estate[3]	57.213				227			
Non-financial corporations by sector								
Agriculture, forestry and fishing	4.017				16			
Manufacturing	5.770				16			
Construction	14.722				45			
Wholesale and retail trade	14.104				55			
Real estate activities	32.489				144			
Professional and scientific services	6.424				20			
Accommodation and food service activities	2.364	17			26			
Other sectors	10.478				23			
Households	**118.857**	**190**			**179**	**26**		
Of which: Residential mortgage loans[3]	91.250				117			
Of which: Credit for consumption[3]	10.162	26			38	26		

[2] The analysis shown under lines ‘non-financial corporations’ and ‘households’ is non-additive across categories as certain customers may be counted under both categories.

Credit Risk (continued)

TABLE B: Analysis of the credit portfolio on the basis of their origination date[4] for balances

As at 31 December 2020

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	65.140	6	218	29.202	2	126	6.233	-	32	29.705	4	60
1 - 2 years	95.527	54	555	57.036	54	492	-	-	-	38.491	-	63
2 - 3 years	55.497	151	195	18.112	63	81	836	-	4	36.549	88	110
3 - 5 years	56.410	104	175	11.339	-	49	-	-	-	45.071	104	126
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**272.574**	**315**	**1.143**	**115.689**	**119**	**748**	**7.069**	**-**	**36**	**149.816**	**196**	**359**

[3] The analysis shown under lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers may be counted under both categories.
[4] The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. the contract date.

Credit Risk (continued)

TABLE B: Analysis of the credit portfolio on the basis of their origination date[5] for balances (continued)

As at 31 December 2019

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Within 1 year	90.227	1	282	56.442	-	230	-	-	-	33.785	-	48
1 - 2 years	57.201	5	102	19.486	-	49	925	-	4	36.791	5	53
2 - 3 years	39.467	185	82	8.253	-	26	-	-	-	31.214	185	56
3 - 5 years	23.255	16	62	6.187	17	40	-	-	-	17.067	-	22
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**210.150**	**207**	**528**	**90.368**	**17**	**345**	**925**	**-**	**4**	**118.857**	**190**	**179**

[5] The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. the contract date.