ANCORIA BANK

banking redefined

ANNUAL FINANCIAL REPORT 2019

Contents

Board of Directors

Andreas C. Kritiotis (Chairman – independent) – appointed 1 February 2019
Charalambos Panayiotou (Vice Chairman)
Chloi Kyprianou Bohm (Non-executive independent) – appointed 27 February 2019
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 as Chairman and appointed member 31 January 2019
Charidemos Theocharides (Non-executive independent)
Ioannis Loizou (Executive)
Evgenia Christodoulou (Executive) – resigned 9 August 2019
Nicolas Prentzas (Executive) – appointed 10 October 2019

Secretary

Christos Papoutsas

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 2019.

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 revised business plan will enable the Bank to increase its operations substantially during this period and requires a share capital increase, for which the major shareholder of the parent company, Ancoria Investments Plc, has already committed to participate.

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

Due to the emergence of the coronavirus ('COVID-19') in the first quarter of 2020, which soon received pandemic characteristics by the World Health Organization, the smooth functioning of the world economy has been affected. This adds to an important factor of uncertainty both in terms of the evolution of macroeconomic aggregates and the ability of companies to operate under the restrictive measures imposed as a result.

This development is expected to adversely affect the ability of borrowers to repay their obligations and, by analogy, the levels of expected credit risk losses. The financial impact depends to a considerable extent on the period of time this crisis will last and varies on a case-by-case basis as each sector of the economy is affected differently. These negative effects which are expected to affect the future plans of the Bank, cannot be determined or quantified at this stage.

As the spread of COVID-19 and the measures taken against it did not take place within 2019, they are not impacting upon the results for the year ended 31 December 2019. More details in respect of COVID-19 developments, their assessment and measures taken by the Bank's management are described further below under 'Events after the reporting date' section and in Note 38 to the financial statements.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2019 and as of the date of this report are presented on page 2.

Other than the resignation of Ms Evgenia Christodoulou and the appointments of Mr Andreas C. Kritiotis (appointed Chairman in succession of Mr Martin Eduard Philip Schenk), Ms Chloi Kyprianou Bohm and Mr Nicolas Prentzas, there were no other significant changes in the composition or distribution of responsibilities of the Board of Directors during the year ended 31 December 2019. Additionally, Mr Panayiotis Mavromichalis was appointed in office in 2020.

In its efforts to discharge its duties effectively, the Board of Directors convened 10 times during 2019, while the Board of Directors' Committees convened as follows:

- Audit Committee - 11 times
- Risk Committee – 7 times
- Remunerations and Nominations Committee - 5 times

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

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 2019 are as follows:

	2019	2018
	€	€
Profit or Loss		
Net interest income	**3.460.348**	1.529.952
Operating income	**4.067.572**	1.893.811
Loss before loss allowance	**(3.146.370)**	(4.945.935)
Loss allowance	**(25.680)**	(190.208)
Loss for the year before tax	**(3.172.050)**	(5.136.143)
Loss for the year after tax	**(3.172.118)**	(5.136.336)
Loss per ordinary share in issue (€)[1]	**(31,41)**	(50,85)

[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.

	2019	2018
	€	€
Key Financial Position figures and ratios		
Customer deposits	**224.584.481**	159.561.260
Loans and advances to customers (gross)	**210.150.157**	117.961.020
Loans and advances to customers (net)	**209.622.025**	117.507.959
Net loans to deposits ratio	**93%**	74%
Loans in arrears over 90 days	**206.918**	4.142
Common Equity Tier 1 Capital ratio	**19,2%**	37,7%
Total Capital ratio	**19,2%**	37,7%
Risk weighted assets	**137.854.596**	78.741.999

Dividends

In 2019, no dividends were paid or declared by the Bank (2018: €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.

As at 31 December 2019, the issued share capital of the Bank amounted to €50 million, through contributions from its immediate parent company.

Furthermore, 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.

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

With the recent and rapid development of the coronavirus ('COVID-19') outbreak, the world economy entered a period of unprecedented health care crisis that has already started causing considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures requiring in some cases companies to limit or even suspend normal business operations and governments to implement restrictions on travelling as well as strict quarantine measures.

Certain industries such as tourism, hospitality and entertainment are expected to be disrupted significantly by these measures whereas others like manufacturing and financial services are expected to incur sideway losses. Considering these unfortunate circumstances, the pace at which the outbreak expands, the uncertain time horizon that the abovementioned extraordinary measures will be applied, and due to the high level of uncertainties in relation to the unpredictable outcome of this outbreak, the financial effect of the current crisis on the global economy and the overall business activities going forward is not possible to be estimated with reasonable certainty at this stage.

As a result of the pandemic, within its April 2020 world economic outlook report, the International Monetary Fund ('IMF') projects that the global economy will contract by -3% in 2020, much worse than during the 2008–09 financial crisis. Under a baseline scenario which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the IMF projects that as economic activity normalizes, assisted by policy support, the global economy will grow by 5.8% in 2021. For the Euro area, the projection is more severe, with a projected contraction of -7.5% in 2020 and a 4.7% recovery in 2021.

In Cyprus, following the extraordinary meeting of the Council of Ministers of the Republic that took place on 15 March 2020, considering the fluid situation as it unfolds daily given the growing spread of COVID-19 and based on the World Health Organization's data on the situation, the Council of Ministers announced that it considers that Cyprus is entering a state of emergency. To this end, certain measures have been taken with a view to safeguarding public health and ensuring the economic survival of working people, businesses, economically vulnerable groups and the economy at large. More specifically, new entry regulations have been announced with regard to protecting the population from a further spread of the disease tightening the entry of individuals in Cyprus. Additionally, a considerable number of private businesses of different types was decided to remain closed as of 16 March 2020 and for a period of four weeks, whereas hotels would suspend their operations until 30 April 2020. In addition, on 23 March 2020, by announcement of the President of the Republic, it was clarified that all retailers (with very limited exceptions) should be suspending their operations until further notice. These public policy measures put in place to contain the spread of COVID-19 are expected to result in significant operational disruption to the operations of the Bank.

In an attempt to bolster households and businesses battered by the COVID-19 crisis, the House of Parliament voted for the Emergency Measures by Financial Institutions and Supervisory Authorities Law of 2020, based on which a Ministerial Decree by the Minister of Finance was issued on 30 March 2020, calling for the suspension of the obligation to pay principal and interest payments on credit exposures of individuals, self-employed and businesses until 31 December 2020 subject to the condition that such credit exposures were not presenting arrears of more than 30 days on 28 February 2020. The plan will apply for the period April - December 2020 to those individuals, self-employed and businesses who wish to apply for their participation. By decision through the Association of Cyprus Banks, all member banks have agreed that during the period of suspension of payments, credit exposures falling under the provisions of the Ministerial Decree and for which suspension will be initiated following an interest on the part of the customer, no interest-bearing interest will apply. This decision is considered not to have a material impact on the Bank's capital adequacy or profitability.

Additionally, the European Central Bank has decided on a series of measures to deal with the COVID-19 consequences. Among other things, it has agreed with the decision of the European Banking Authority ('EBA') to postpone the submission of stress tests for 2020, as well as, to provide easing to supervisory capital and liquidity ratios. Financial institutions will also be able to draw liquidity from the Eurosystem on significantly favourable terms. On a parallel action, the European Securities and Markets Authority ('ESMA') after cooperation with the EBA issued a public statement on 25 March 2020 in accordance with which both authorities consider that the implementation of public or private decisions aimed at addressing the negative systemic effects of COVID-19 should not be considered as an automatic indication that a significant increase in credit risk has taken place.

The Bank's management is monitoring these recent developments regarding the rapid transmission of COVID-19 and reviewing any impact these would have on the quality of its assets, the sensitivity of its risk models to macro-parameters, as well as, on the implementation of its business plan. Given the inevitable uncertainties, the management cannot accurately and reliably assess the qualitative and quantitative impacts on operational activities, financial situation and financial results.

As a first response to the announcement of being in a state of emergency, the management has reviewed the operational continuity plan of the Bank, as well as, its ability to maintain its business operations within these particular conditions in order to support its customers during this difficult period. Actions included the activation of the business continuity plan ('BCP'), adapted for the event of a pandemic to ensure a coordinated response to events that could potentially disrupt its activity. A series of predefined actions were triggered, but the usual BCP procedures were expanded to further reduce any risks. As a result, the predefined action of ensuring that staff of critical functions were able to work from home, was significantly extended to include all Head Office staff to the maximum extent possible, without compromising any functions or downgrading the level of services the Bank is offering. In respect of staff working at the business centres, these were divided into groups, alternating between them on a rotational basis.

The existing remote work capability of the Bank has been significantly upgraded and additional equipment has been provided to all staff, allowing for the successful and timely implementation of their work, ensuring that all functions can be performed from alternate locations without interruption. At the same time, BCP processes are also applied to the Bank's suppliers, counterparties and technology providers, ensuring a continuous flow of services and goods to the Bank. Furthermore, the Bank has taken all precautionary actions suggested by the Ministry of Health in relation to health and safety for its employees, customers and partners, including the decontamination of premises, the provision of protective gear for everyday activities and the implementation of social distancing procedures.

The Bank's management has considered the unique circumstances and the risk exposures of the Bank and has concluded that the main impacts on the Bank's profitability / liquidity position may arise from:

- Incapacity to meet business plan objectives;
- Increase in expected credit losses across most sectors;
- Withdrawal of deposits;
- Increased volatility in the value of financial instruments;
- Unavailability of personnel;
- Breach of financial covenants and failure to meet contractual obligations;
- Increased operating costs due to employees working remotely.

Based on the main impacts identified and in order to assess actual and potential financing needs, the management is in the process of reassessing the Bank's trading and relevant cash flows using revised assumptions and incorporating down-side scenarios. From the analysis performed no additional liquidity needs have been identified. However, as a means of prudency, the management is already in the process of assessing future measures and alternative sources of financing as a response to adverse scenarios. Such measures include additional financing, cost-cutting policies and disposal of investments.

The Bank's management will continue to monitor the situation closely and implement additional measures in case the period of disruption becomes prolonged.

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

Christos Papoutsas
Secretary

30 April 2020

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

	Note	**2019** **€**	2018 €
Interest income	*4*	**3.928.841**	2.172.705
Interest expense	*5*	**(468.493)**	(642.753)
Net interest income		**3.460.348**	1.529.952
Fee and commission income	*6*	**764.120**	445.305
Fee and commission expense	*6*	**(202.023)**	(118.092)
Net fee and commission income		**562.097**	327.213
Net foreign exchange gains		**39.046**	25.818
Fair value loss on revaluation of financial assets	*15*	**-**	(20.000)
Gain on disposal of financial instruments		**1.294**	12.783
Net loss on disposal / write-off of property and equipment		**(28.292)**	-
Other income		**30.924**	18.045
Operating income		**4.065.417**	1.893.811
Staff costs	*7*	**(3.423.750)**	(3.164.546)
Depreciation of property and equipment	*20*	**(702.140)**	(493.216)
Amortisation of intangible assets	*21*	**(369.928)**	(702.853)
Other operating expenses	*8*	**(2.715.969)**	(2.479.131)
Loss before loss allowance		**(3.146.370)**	(4.945.935)
Loss allowance	*9*	**(25.680)**	(190.208)
Loss before tax	*10*	**(3.172.050)**	(5.136.143)
Income tax	*11*	**(68)**	(193)
Loss for the year		**(3.172.118)**	(5.136.336)
Other comprehensive income that will not be reclassified to profit or loss			
Gain / (loss) on revaluation of equity instruments at fair value through other comprehensive income	*27*	**2.822**	(657)
Other comprehensive income that will be reclassified to profit or loss			
Gain / (loss) on revaluation of debt instruments at fair value through other comprehensive income	*27*	**28.146**	(39.584)
Total comprehensive loss for the year		**(3.141.150)**	(5.176.577)

Statement of Financial Position
as at 31 December 2019

	Note	2019 €	2018 €
ASSETS			
Cash and balances with Central Bank	12	**24.054.654**	45.422.223
Placements with banks	13	**3.665.683**	4.400.184
Loans and advances to customers	14	**209.622.025**	117.507.959
Financial assets at fair value through profit or loss	15	**-**	-
Investments at fair value through other comprehensive income	16	**2.302.679**	2.172.230
Investments at amortised cost	17	**24.965.166**	18.059.958
Other assets	19	**2.866.253**	2.236.286
Property and equipment	20	**7.289.834**	6.678.348
Intangible assets	21	**691.296**	729.740
Total assets		**275.457.590**	197.206.928
LIABILITIES			
Customer deposits	22	**224.584.481**	159.561.260
Funding from central banks	23	**9.300.000**	-
Other borrowings	24	**9.275.340**	5.351.684
Provisions and other liabilities	25	**5.131.687**	1.915.410
Total liabilities		**248.291.508**	166.828.354
EQUITY			
Share capital	26	**101.000**	101.000
Share premium	26	**49.900.000**	49.900.000
Revaluation reserve	27	**7.919**	(23.049)
Accumulated losses	28	**(22.842.837)**	(19.599.377)
Total equity		**27.166.082**	30.378.574
Total liabilities and equity		**275.457.590**	197.206.928

On 30 April 2020, 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 2019

	Share capital *(Note 26)*	Share premium *(Note 26)*	Revaluation reserve *(Note 27)*	Accumulated losses *(Note 28)*	Total
	€	€	€	€	€
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 as at 31 December 2019	**101.000**	**49.900.000**	**7.919**	**(22.842.837)**	**27.166.082**
Balance at 1 January 2018	101.000	49.900.000	17.192	(14.463.041)	35.555.151
Comprehensive income					
Loss for the year	-	-	-	(5.136.336)	(5.136.336)
Other comprehensive loss for the year	-	-	(40.241)	-	(40.241)
Total comprehensive loss for the year	-	-	(40.241)	(5.136.336)	(5.176.577)
Balance at 31 December 2018	101.000	49.900.000	(23.049)	(19.599.377)	30.378.574

Share premium is not available for distribution.

Statement of Cash Flows
for the year ended 31 December 2019

	Note	2019 €	2018 €
Net cash flow (used in) / from operating activities	*31*	**(25.935.874)**	42.196.510
Cash flow from investing activities			
Purchase of property and equipment	*20*	**(127.623)**	(1.706.576)
Purchase of intangible assets	*21*	**(333.507)**	(546.447)
Proceeds on disposal of property and equipment		**15.350**	-
Assets originated at fair value through profit or loss		**-**	(20.000)
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		**2.584.097**	-
Purchase of investments at amortised cost		**(16.496.151)**	(14.459.094)
Proceeds on disposal of investments at amortised cost		**9.976.213**	546.040
Net cash flow used in investing activities		**(7.077.471)**	(16.186.077)
Cash flow from financing activities			
Proceeds of funding from Central banks	*23*	**9.300.000**	-
Repayment of lease liabilities	*25*	**(178.538)**	-
Interest on lease liabilities	*25*	**(35.400)**	-
Net cash flow from financing activities		**9.086.062**	-
Net (decrease) / increase in cash and cash equivalents		**(23.927.283)**	26.010.433
Cash and cash equivalents			
At 1 January		**48.329.314**	22.318.881
Net (decrease) / increase in cash and cash equivalents		**(23.927.283)**	26.010.433
At 31 December	*32*	**24.402.031**	48.329.314

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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 30 April 2020.

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 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 29.

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 2019.

Standard / Interpretation	**Effective for annual periods beginning on or after**
IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IFRS 9 *Prepayment Features with Negative Compensation*	1 January 2019
IFRS 16 *Leases*	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*	1 January 2019

The adoption of these new and revised standards and interpretations did not have a material effect on the accounting policies of the Bank, except from the adoption of IFRS 16 *Leases* as described below.

IFRS 16 *Leases*

IFRS 16 *Leases* was issued in January 2016 to replace IAS 17 *Leases*. In accordance with IFRS 16, lessees are required to capitalise operating leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments should be recognised as lease liabilities.

The Bank has applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application without restating the comparatives which continue to be presented under IAS 17 and IFRIC 4 (cumulative catch-up approach). The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 at the date of initial application (refer to Note 2.13 for the accounting policy as of 1 January 2019).

The definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on ‘risks and rewards’ in IAS 17 and IFRIC 4.

Further to IFRS 16 introduction, the Bank is reporting additional depreciation on right-of-use assets and finance charges in relation to the resultant lease liabilities, while rental expenses on contracts classified as operating leases has ceased. The most significant impact from initially applying IFRS 16 was the recognition of right-of-use assets in respect of premises leased by the Bank under contracts previously classified as operating leases under IAS 17 (refer to Note 2.13 for the accounting policy prior to 1 January 2019).

The opening statement of financial position of the Bank at 1 January 2019 has been adjusted to create a right-of-use asset. On transition, the right-of-use asset was measured as if the standard had been applied since the commencement date of the lease agreements, using the incremental borrowing rate at the date of initial application. Retained earnings, as well as the Common Equity Tier 1 (‘CET1’) ratio of the Bank were impacted as a result.

2. Significant accounting policies (continued)

2.2. Adoption of new and revised IFRSs (continued)

The Bank has 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. The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.

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

The following table presents the operating lease commitments disclosed applying IAS 17 as at 31 December 2018, discounted using the incremental borrowing rate of the leases at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	€
Operating lease commitments as at 31 December 2018	1.499.200
Weighted average lease incremental borrowing rate as at 1 January 2019	2,96%
Discounted operating lease commitments as at 1 January 2019	**1.285.189**

The impact of IFRS 16 application on the opening statement of financial position of the Bank at 1 January 2019 is shown below:

	1 January 2019
	€
Right-of-use assets - premises	1.809.473
Right-of-use assets – IT equipment	29.622
Total gross assets	1.839.095
Accumulated depreciation	(617.748)
	1.221.347
Rental prepayments reversed	(7.500)
Total net assets	**1.213.847**
Lease liabilities	1.285.189
Retained earnings	(71.342)
Total liabilities and equity	**1.213.847**
Increase in risk weighted assets	**1.213.847**
Revised CET1 ratio	**37.0%**

The Bank has recognised €1.221.347 of right-of-use assets and €1.285.189 of lease liabilities upon transition to IFRS 16. The adoption of IFRS 16 did not have an impact on net cash flows.

2. Significant accounting policies (continued)

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 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

b) Not yet adopted by the EU

Standard / Interpretation	Effective for annual periods beginning on or after
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current*	1 January 2022

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.

2. Significant accounting policies (continued)

2.4. Revenue recognition (continued)

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.

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.

2. Significant accounting policies (continued)

2.5. Foreign currency translation (continued)

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.

2.7. 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.

2. Significant accounting policies (continued)

2.7. Tax (continued)

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.

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. Significant accounting policies (continued)

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.

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.

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 as of 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.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

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 as of 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.

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.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

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.

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.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

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 remeasurement 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 remeasurement 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 remeasurement 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.

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.

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.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

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 as of 1 January 2018)

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.

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 has been forborne and is more than 30 days past due within the probation period;
- The facility is considered as non-performing according to reporting rules of EBA's 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.

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.

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

- Exposure 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 and modified 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.

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.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

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 2019 and 2018, 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.

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.

2. Significant accounting policies (continued)

2.10. Impairment of non-financial assets (continued)

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 remeasurement 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.

2.12. 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.

2. Significant accounting policies (continued)

2.12. Intangible assets (continued)

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 5 years for computer software (or 20% 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.

2.13. Leases

Policy applicable as of 1 January 2019

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.

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.

2. Significant accounting policies (continued)

2.13. Leases (continued)

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 ‘Provisions and other 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.

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.

<u>Policy applicable prior to 1 January 2019</u>
The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Finance Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating Leases
Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are considered operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

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 recognized 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 recognized 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.

2.17. 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.

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 2019 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’).

During the preparation of the financial statements for the year ended 31 December 2019, the Bank’s Management took into account the following factors:

- **Capital adequacy**

  The Bank's total capital ratio at 31 December 2019 was at 19.2%, 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.

  In April 2020, a capital increase of €10 million was completed. The Bank is now sufficiently capitalised to meet the challenges of the year ahead.

- **Liquidity**

  In 2019, the Bank increased its customer deposits by €65 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.

3. Significant accounting estimates and judgments (continued)

3.1. Going concern (continued)

- **Cyprus economy**

  Performance

  The Cypriot economy displayed, similarly to 2018, positive performance. GDP growth is estimated for 2019 to reach 3.2% compared to 3.9% in 2018, whilst inflation remained at a low 0.5% and unemployment fell further to 7.0% compared with 8.7% in 2018. According to Treasury's forecasts, debt will rise to 97% in 2019 with a forecast to fall to 81% by 2022. The Republic of Cyprus has made an early repayment of the loan it had received from Russia and plans in 2020 to make an early repayment of the loan received from the International Monetary Fund.

  The strong performance of the economy is driven by private consumption, tourism and services. Private consumption has benefited from the rapid expansion of employment in all sectors, which has led to a significant reduction in unemployment, whilst tourism, services and shipping are providing a significant contribution to development.

  The introduction of the General Health System has created surpluses in the General Government's fiscal budget as the contributions to the health system were initiated as of 1 March 2019, as opposed to the provision of services that began on 1 June 2019.

  The Cyprus sovereign is rated by international rating agencies Standard & Poor's and Fitch within the BBB investment tier with a stable horizon and outlook which should enable relatively easier management of fiscal debt levels. In parallel, the Republic of Cyprus has successfully issued 5-year, 15-year and 30-year bonds totalling €2.75 billion in 2019.

  The hydrocarbon deposits discovered in the Exclusive Economic Zone of the Republic of Cyprus are expected to give additional impetus to investments in the energy sector.

  <u>Predictions</u>

  Although according to the Macroeconomic and Budgetary Forecasts of the Ministry of Finance, the budgetary balance in 2020 was projected to be in surplus and to reach 2.7% as a percentage of GDP, while the primary surplus was projected to be around 5.1% of GDP, the spread of the coronavirus ('COVID-19') and the government's announced measures are projected to have a negative impact on both GDP growth and surplus of the primary balance. It is not yet possible to accurately calculate the impact that the outbreak, as well, as the measures taken will have on the Cypriot economy and its GDP projections.

  Based on the above initial forecasts, public debt in 2020 would fall to €20.4 billion and as a percentage of GDP to be limited to 91.1%. The downward trajectory of government debt as a percentage of GDP was expected to continue in the coming years and fall to 85.9% and 81.1% at the end of 2021 and 2022 respectively.

  According to the European Commission's winter forecasts, the Cypriot economy would continue to be robust and expected to grow in 2020 though at a slower pace than previous years. Lower expectations for 2020 are affected by the weak growth of the euro area, as well as, the uncertainties of major countries trading with Cyprus. Additionally, the construction sector may be affected by the passport restriction programme for third-country residents.

  Inflation was expected to reach 0.5% in 2019 and for 2020 it is estimated that there will be an increase of up to 0.8% mainly due to the increase in disposable income.

  The COVID-19 outbreak, which has forced the World Health Organisation to declare it a pandemic, is bound to affect the economies of the world due to the drastic measures taken to contain it.

3. Significant accounting estimates and judgments (continued)

3.1. Going concern (continued)

In addition to COVID-19, the risks that the Cypriot economy may face relate to the international economic environment which is still unstable, due to the ongoing tension in trade relations and geopolitical developments in the surrounding Eastern Mediterranean region, including the migration problem. The slowdown in global growth, particularly in the euro area economies and other important trading partners of Cyprus, has started to become apparent and if it continues longer than expected it will have a negative impact on key forecasts. In addition, uncertainty exists as to how the European Union will cooperate with the United Kingdom after its withdrawal.

Due to the emergence of the coronavirus ('COVID-19') in the first quarter of 2020, which soon received pandemic characteristics by the World Health Organization, the smooth functioning of the world economy has been affected. This adds as an important factor of uncertainty both in terms of the evolution of macroeconomic aggregates and the ability of companies to operate under the restrictive measures imposed as a result.

This development is expected to adversely affect the ability of borrowers to repay their obligations and, by analogy, the levels of expected credit risk losses. The financial impact depends to a considerable extent on the period of time this crisis will last and varies on a case-by-case basis as each sector of the economy is affected differently. These negative effects which are expected to affect the future plans of the Bank, cannot be determined or quantified at this stage.

In its efforts to support individuals and businesses most affected by COVID-19 and its associated containment measures, the Cyprus government has announced a package of financial measures and relaxations. In parallel, the European Central Bank has announces measures to enhance the liquidity of credit institutions while facilitating the gradual absorption of the impact on capital adequacy ratios.

When deciding upon the Bank's ability to operate as an ongoing activity, the management has taken into account the following:

- the Bank's capital adequacy as at 31 December 2019 and capital increase performed in 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 Republic of Cyprus 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.

3. Significant accounting estimates and judgments (continued)

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

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.

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. Further, 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.

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 following macro-economic factors:

- **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 macro-economic 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 macro-economic factor. For example, a 1% increase in property prices and GDP is considered optimistic, while a 1% decrease in unemployment is considered optimistic.

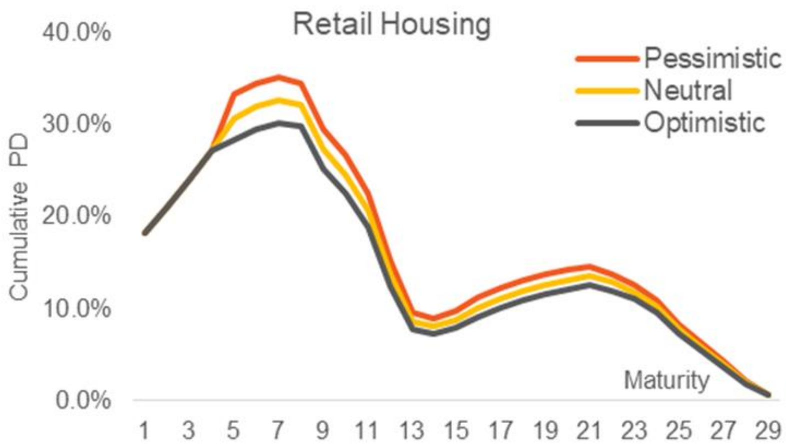
- **Baseline**

  Takes the historical index and projects accordingly.

- **Pessimistic**

  Takes the neutral projection and adds or subtracts 1% according to macro-economic factor. For example, a 1% decrease in property prices and GDP is considered pessimistic, while a 1% increase in unemployment is considered pessimistic.

All scenarios take equal weight in the calculation of expected credit loss ('ECL').



The above graph demonstrates an example of how lifetime probability of default would fluctuate under a macroeconomic scenario for a housing loan.

In the absence of adequate historical internal data, the Bank has used academic papers in order to determine macro-economic 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 the Cypriot and global economies are still unknown as to their extent and impact. Even though no scenarios related to the outbreak have been constructed as a result of this uncertainly, for prudency purposes, as of April 2020 onwards, 100% weight has been placed on the Pessimistic scenario and 0% weights has been assigned to both Baseline and Optimistic Scenarios. Once the impact of COVID-19 can be assessed with more accuracy, the scenarios will be revisited and updated accordingly.

3. Significant accounting estimates and judgments (continued)

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

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.

For purposes of prudency and due to the lack of historical information at the time of inception of the provisioning methodology, the Bank included a conservative component within the impairment allowance calculation. The conservative component was to add 1 point to each customer's credit score, which translated to a higher PD than the one reflected under the customer's originally calculated credit score in accordance with the Bank's methodology. This conservative component was removed from the impairment allowance calculation in 2019 taking into consideration the following:

- the Bank's track record of very low percentages of exposures in arrears, and
- the improvements recorded under non-performing exposures figures in the local market.

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 2019 and 2018. A summary of the tax losses on which no deferred tax asset has been recognised is disclosed in Note 11.

3. Significant accounting estimates and judgments (continued)

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).

A valuation report dated 29 October 2019 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 fair value hierarchy of freehold land and buildings is disclosed in Note 20.

4. Interest income

	2019	2018
Interest income recognised using the effective interest method	**€**	€
Loans and advances to customers	**3.802.016**	2.139.027
Investments at amortised cost	**113.443**	25.920
Investments at fair value through other comprehensive income	**3.486**	4.309
Placements with banks	**9.896**	3.449
	3.928.841	2.172.705

5. Interest expense

	2019	2018
Interest expense recognised using the effective interest method	**€**	€
Customer deposits	**278.284**	410.139
Balances with Central Bank	**93.147**	189.978
Other borrowings (*Note 24*)	**49.960**	26.316
Placements with banks	**11.701**	16.320
Lease liabilities (*Note 25*)	**35.401**	-
	468.493	642.753

Balances held with the Central Bank and other banks carry negative interest, which averaged 0,40% as at 31 December 2019 (2018: 0,40%).

6. Fee and commission income and expense

Fee and commission income

	2019	2018
	€	€
Payment services	**182.113**	120.887
Clearing and settlement	**116.087**	44.735
Insurance rebate arrangements	**103.184**	55.618
Loan servicing and commitments	**96.664**	54.304
Financial guarantees	**92.366**	66.251
Other	**173.706**	103.510
	764.120	445.305

Fee and commission expense

	2019	2018
	€	€
Clearing and settlement	**202.023**	118.092

7. Staff costs

	2019	2018
	€	€
Staff salaries and other remuneration, net of subsidies	**2.874.317**	2.690.957
Pension plan contributions	**137.780**	137.287
Social insurance and other employer's contributions	**411.653**	336.302
	3.423.750	3.164.546

The number of persons employed by the Bank as at 31 December 2019 was 83 (2018: 81). 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 the employee gross salary and employee contributions within a range of 4%-10% of their gross salary. 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

	2019	2018
	€	€
Rental of premises	**-**	222.800
Utilities and other premises expenses	**163.158**	141.596
Post and telecommunication expenses	**219.364**	181.147
Insurance expenses	**42.756**	38.143
Directors' remuneration and expenses	**149.028**	111.277
Travelling and training, net of any subsidies	**76.854**	36.579
Auditors' remuneration for statutory audit	**59.500**	53.550
Auditors' remuneration for other non-audit assurance engagements	**52.181**	23.747
Legal and consultancy fees	**375.512**	192.142
Advertising and promotion	**146.607**	245.400
Special tax levy on deposits (*Note 11*)	**296.134**	202.509
Supervisory fees	**108.980**	83.024
Computer supplies, maintenance and related expenses	**815.810**	737.694
Professional and trade subscriptions	**62.161**	56.651
Printing and stationery	**38.050**	45.403
Other operating expenses	**109.873**	107.469
	2.715.969	2.479.131

Following the adoption of IFRS 16 as of 1 January 2019, 'Rental of premises' line is nil for the year ended 31 December 2019.

9. Loss allowance

	2019	2018
	€	€
Loans and advances to customers (*Note 14*)	**75.071**	144.462
Financial guarantees and commitments (*Note 25*)	**(50.157)**	22.761
Investments at fair value through other comprehensive income (*Note 16*)	**(144)**	452
Investments at amortised cost (*Note 17*)	**910**	22.533
	25.680	190.208

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

	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**

	2018					
	Stage 1 Individual	**Stage 1 Collective**	**Stage 2 Individual**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Loans and advances to customers	(118.244)	209.871	(7.519)	59.466	888	144.462
Financial guarantees and commitments	(40.979)	30.099	34.423	(782)	-	22.761
Investments at fair value through other comprehensive income	452	-	-	-	-	452
Investments at amortised cost	22.533	-	-	-	-	22.533
Total loss allowance	(136.238)	239.970	26.904	58.684	888	190.208

10. Loss before tax

Loss before tax is stated after charging the following items:

	2019	2018
	€	€
Directors' remuneration (*Note 35*)	**143.537**	104.819
Operating lease rentals for buildings and software	**54.383**	129.349
Auditors' remuneration for:		
- Statutory audit	**59.500**	53.550
- Other non-audit assurance engagements	**52.182**	23.747

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:

	2019	2018
	€	€
Loss before tax	**(3.172.050)**	(5.136.143)
Corporation tax based on applicable rates	**(396.506)**	(642.018)
Tax effect of:		
- Non-deductible expenses	**151.841**	778.923
- Allowances and income not subject to tax	**(119.477)**	(751.514)
- Tax losses for the year	**364.142**	614.610
	-	-
Withholding tax on dividend income	**(68)**	(193)
Tax charge	**(68)**	(193)

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 2019, the Bank's tax losses to be carried forward amounted to €21.749.904 (2018: €18.931.616). 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 2019, the total Special Tax Levy imposed on the Bank's qualifying deposits amounted to €296.135 (2018: €202.509) and is included under 'Other operating expenses' line (Note 8).

12. Cash and balances with Central Bank

	2019	2018
	€	€
Cash	**4.408.925**	4.110.906
Balances with Central Bank of Cyprus		
- Non-obligatory balances	**17.501.270**	39.818.224
- Obligatory balances for liquidity purposes	**2.144.459**	1.493.093
	24.054.654	45.422.223

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.

	2019	2018
	€	€
Foreign Banks		
- Short-term placements considered cash equivalents (*Note 32*)	**2.491.836**	4.400.184
- Long-term placements	**1.173.847**	-
	3.665.683	4.400.184

Placements with foreign banks mainly refer to current balances on nostro accounts with correspondent banks. The majority of these balances in 2019 was kept with KBC Bank NV for a total amount of €2.444.788 (2018: €2.836.848). 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

	2019	2018
	€	€
Retail		
Housing	**108.615.420**	74.374.889
Consumer	**9.737.511**	4.939.732
Overdrafts	**503.911**	296.851
	118.856.842	79.611.472
Business		
Loans	**80.010.775**	31.861.254
Overdrafts	**11.282.540**	6.488.294
	91.293.315	38.349.548
Gross loans and advances to customers	**210.150.157**	117.961.020
Loss allowance on loans and advances to customers	**(528.132)**	(453.061)
	209.622.025	117.507.959

Movement of loss allowance on loans and advances to customers

	2019	2018
	€	€
1 January	**(453.061)**	(308.599)
Loss allowance for the year (*Note 9*)	**(75.071)**	(144.462)
31 December	**(528.132)**	(453.061)

There was no interest suspended as at 31 December 2019 (2018: €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 2019, an amount of €206.918 (2018: €4.142) was classified by the Bank as NPE. The following exposures are considered NPE:

- Material exposures 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, 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

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 2015 stating the following thresholds:

- For obligors of retail exposures, including exposures secured by mortgages of residential or commercial property, the higher of:
    a. A minimum limit of €500, i.e. if the amount in arrears of an obligor who has a retail exposure does not exceed €500, this exposure is not classified as defaulted exposure, or
    b. One loan instalment or an overdraft excess of 10% of the contractual limit, as applicable
- For other exposures, the higher of:
    a. A minimum limit of €1.000, i.e. if the total amount in arrears of the total exposure of an obligor does not exceed €1.000, this exposure is not classified as defaulted exposure, or
    b. The amount of arrears and excesses that in total exceed 10% of the total exposures to the obligor

14. Loans and advances to customers (continued)

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%

Forborne exposures

On 31 December 2019, 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 groups of connected persons which exceed 3% of the Bank's share capital and reserves and are not classified as Stage 1 exposures
- 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.

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.

14. Loans and advances to customers (continued)

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

	2019	2018
Loans and advances	**€**	€
1 January	**20.000**	-
Additions	**-**	20.000
Changes in carrying amount	**(5.000)**	-
	15.000	20.000
Fair value loss on revaluation	**(15.000)**	(20.000)
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

	2019	2018
	€	€
Bonds		
Credit institutions	**1.914.564**	1.794.209
Non-financial corporations	**301.682**	294.554
	2.216.246	2.088.763
Loss allowance on investments at fair value through other comprehensive income	**(308)**	(452)
	2.215.938	2.088.311
Equity instruments measured at fair value through other comprehensive income		
Exchange-traded funds	**86.741**	83.919
	2.302.679	2.172.230
Listed on European stock exchanges	**2.215.938**	2.088.311
Listed on US stock exchanges	**86.741**	83.919
	2.302.679	2.172.230

The Bank has classified the exchange-traded funds held as at 31 December 2019 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

	2019	2018
	€	€
1 January	**(452)**	-
Loss recovery / (allowance) for the year (*Note 9*)	**144**	(452)
31 December	**(308)**	(452)

Geographical breakdown based on region / country of issuer

	2019	2018
	€	€
United States of America	**1.295.822**	1.283.916
European Union countries	**1.006.857**	888.314
	2.302.679	2.172.230

As part of actions taken in accordance with its Liquidity Management Policy (as mentioned in Note 33), during 2019 the Bank acquired debt investments at fair value through other comprehensive income of nominal amount of €2.500.000 (2018: €nil). Additionally, investments of nominal amount of €300.000 were disposed during 2019 (2018: €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 2019 was 0,73% (2018: -1,67%) 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 2019 was 5,37% (2018: 5,68%) calculated on the portfolio's revaluation gain or loss and dividend receivable during the year.

17. Investments at amortised cost

	2019	2018
	€	€
Bonds		
Cyprus government	**-**	1.750.600
Other governments	**6.966.882**	4.073.347
Credit institutions	**5.496.763**	3.681.910
Other financial corporations	**5.660.690**	2.438.200
Non-financial corporations	**6.864.274**	6.138.434
	24.988.609	18.082.491
Loss allowance on investments at amortised cost	**(23.443)**	(22.533)
	24.965.166	18.059.958
Listed on Cyprus Stock Exchange	**-**	1.745.709
Listed on European stock exchanges	**24.965.166**	16.314.249
	24.965.166	18.059.958

17. Investments at amortised cost (continued)

Movement of loss allowance on investments at amortised cost

	2019	2018
	€	€
1 January	**(22.533)**	-
Loss allowance for the year (*Note 9*)	**(910)**	(22.533)
31 December	**(23.443)**	(22.533)

Geographical breakdown based on region / country of issuer

	2019	2018
	€	€
Cyprus	**-**	1.745.709
European Union countries	**19.451.594**	12.820.152
Other countries	**5.513.572**	3.494.097
	24.965.166	18.059.958

As part of actions taken in accordance with its Liquidity Management Policy (as mentioned in Note 33), during 2019 the Bank acquired investments at amortised cost of nominal amount of €15.975.000 (2018: €13.550.000). Additionally, investments of nominal amount of €9.325.000 matured during 2019 (2018: €nil).

No disposals of investments at amortised cost took place during 2019 (2018: €500.000). The disposal in 2018 referred to one bond and was concluded at a marginal gain. The reasoning for the disposal was that, in the opinion of the management, the risk profile of the issuer was adversely impacted.

The weighted average acquisition yield on investments at amortised cost held as at 31 December 2019 was 0,59% (2018: 0,33%).

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 2019 and 2018 are presented in Note 33.

18. Fair value measurement of financial assets

	2019		2018	
	Carrying value €	**Fair value €**	Carrying value €	Fair value €
Financial assets				
Cash and balances with Central Bank	**24.054.654**	**24.054.654**	45.422.223	45.422.223
Placements with banks	**3.665.683**	**3.665.683**	4.400.184	4.400.184
Loans and advances to customers	**209.622.025**	**209.622.025**	117.507.959	117.507.959
Investments at fair value through other comprehensive income	**2.302.679**	**2.302.679**	2.172.230	2.172.230
Investments at amortised cost	**24.965.166**	**25.481.280**	18.059.958	18.106.411
	264.610.207	**265.126.321**	187.562.554	187.609.007
Financial liabilities				
Customer deposits	**224.584.481**	**224.584.481**	159.561.260	159.561.260
Funding from central banks	**9.300.000**	**9.300.000**	-	-
Other borrowings	**9.275.340**	**9.275.340**	5.351.684	5.351.684
Lease liabilities	**1.106.651**	**1.106.651**	-	-
	244.266.472	**244.266.472**	164.912.944	164.912.944

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:

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**

2018	**Level 1 €**	**Level 2 €**	**Level 3 €**	**Total €**
Financial assets measured at fair value				
Investments at fair value through other comprehensive income	2.172.230	-	-	2.172.230
Financial assets not measured at fair value				
Cash and balances with Central Bank	-	45.422.223	-	45.422.223
Placements with banks	-	4.400.184	-	4.400.184
Loans and advances to customers	-	-	117.507.959	117.507.959
Investments at amortised cost	16.354.669	1.751.742	-	18.106.411
	16.354.669	51.574.149	117.507.959	185.436.777
Financial liabilities not measured at fair value				
Customer deposits	-	-	159.561.260	159.561.260
Other borrowings	-	-	5.351.684	5.351.684
	-	-	164.912.944	164.912.944

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 in prior year which were 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

	2019	2018
	€	€
Receivables from parent company (*Note 35*)	**126.860**	108.066
Deposits and prepayments	**547.272**	611.913
Other receivables	**2.192.121**	1.516.307
	2.866.253	2.236.286

Deposits and prepayments include an amount of €33.300 (2018: €41.400) relevant to premises lease agreements and related expenses.

Other receivables include an amount of €14.342 (2018: €46.791) 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 €1.961.788 (2018: €1.309.599).

20. Property and equipment

2019	Land €	Freehold property €	Leasehold improvements €	Equipment €	Furniture and fittings €	Right-of-use assets €	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**

2018	Land €	Freehold property €	Leasehold improvements €	Equipment €	Furniture and fittings €	Advances for premises €	Other tangible assets €	Total €
Cost								
1 January	-	-	2.149.661	1.057.632	543.359	2.131.071	-	5.881.723
Additions	-	833	760	160.747	-	1.980.041	21.707	2.164.088
Transfers to land and freehold	1.200.000	2.911.112	-	-	-	(4.111.112)	-	-
Transfers from depreciation	-	-	(157.512)	-	-	-	-	(157.512)
Transfers at net book value	-	483.841	(483.841)	-	-	-	-	-
31 December	1.200.000	3.395.786	1.509.068	1.218.379	543.359	-	21.707	7.888.299
Depreciation								
1 January	-	-	458.532	305.241	110.474	-	-	874.247
Charge for the year	-	59.422	178.646	200.813	54.335	-	-	493.216
Transfers against cost	-	-	(157.512)	-	-	-	-	(157.512)
31 December	-	59.422	479.666	506.054	164.809	-	-	1.209.951
Net Book Value	1.200.000	3.336.364	1.029.402	712.325	378.550	-	21.707	6.678.348

20. Property and equipment (continued)

Advances for premises as at 1 January 2018 consisted of a down payment made on 20 December 2017 in relation to the acquisition of the Bank's business centre premises in Limassol which were under a leasehold agreement at the time. The premises were transferred to the ownership of the Bank on 29 May 2018 and any leasehold improvements until that date were transferred under freehold property at their net book value. Further details on the mentioned transaction are provided in Note 35.

The Bank has adopted the revaluation model under IAS 16 for owner-occupied property. A valuation report dated 29 October 2019 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.

Management considers the date of the valuation exercise sufficiently proximate to the reporting period end, to be used as a 31 December fair value measurement. 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	-	-	3.248.540	3.248.540
	-	-	4.448.540	4.448.540

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 2019. 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.

20. Property and equipment (continued)

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 €2.376.000.

Right-of-use assets also include lease agreements in respect of computer hardware expiring in 2020 with option for termination under certain conditions.

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 2019. 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

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**

21. Intangible assets (continued)

2018	Computer software and licences	Intangibles under development	Total
	€	€	€
Cost			
1 January	2.210.864	16.993	2.227.857
Additions	525.631	20.816	546.447
Transfers	16.993	(16.993)	-
31 December	2.753.488	20.816	2.774.304
Amortisation			
1 January	1.341.711	-	1.341.711
Charge for the year	702.853	-	702.853
31 December	2.044.564	-	2.044.564
Net Book Value	708.924	20.816	729.740

None of the intangibles under development are internally generated.

22. Customer deposits

	2019	2018
	€	€
Current accounts	**125.702.643**	84.084.137
Savings accounts	**21.185.722**	12.522.966
Fixed term deposit accounts	**77.696.116**	62.954.157
	224.584.481	159.561.260

23. Funding from central banks

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

	2019	2018
	€	€
Targeted Longer-Term Refinancing Operations (TLTRO III)	**9.300.000**	-

The maturity period of TLTRO III is set to three years, with a repayment option after two years. For counterparties whose eligible net lending between end of March 2019 and end of 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 interest rate on the deposit facility prevailing over the life of the respective TLTRO III. 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 and on 16 December 2022 for TLTRO III.2. The maximum interest rate expected to be paid by the Bank is 0%, with minimum interest rate expected at -0.50%. 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

	2019	2018
	€	€
1 January	**5.351.684**	3.004.737
Advancements	**4.500.000**	2.500.000
Interest charged (*Note 5*)	**49.960**	26.316
Repayments	**(626.304)**	(179.369)
31 December	**9.275.340**	5.351.684

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. Provisions and other liabilities

	2019	2018
	€	€
Social insurance and related taxes, defence tax and stamp duty payable	**148.549**	136.401
Accrued expenses	**549.525**	416.296
VAT payable	**12.194**	15.110
Loss allowance on financial guarantees and commitments	**43.153**	93.310
Lease liabilities	**1.106.651**	-
Other creditors and liabilities	**3.271.616**	1.254.293
	5.131.688	1.915.410

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

Movement of loss allowance on financial guarantees and commitments

	2019	2018
	€	€
1 January	**93.310**	70.549
Loss (recovery) / allowance for the year (*Note 9*)	**(50.157)**	22.761
31 December	**43.153**	93.310

25. Provisions and other liabilities (continued)

The table below presents the carrying amount of lease liabilities and movement during the year.

	€
As at 1 January 2019 – effect of adoption of IFRS 16	**1.285.189**
Additions	**-**
Interest accrued (*Note 5*)	**35.400**
Lease payments	**(213.938)**
As at 31 December 2019	**1.106.651**

The analysis of lease liabilities by expected maturity is disclosed in Note 29 and by contractual maturity in Note 33.

26. Share capital and share premium

	2019			2018		
	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
31 December	**101.000**	**101.000**	**49.900.000**	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.

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.

As at 31 December 2019 and 2018, the Bank had a total issued share capital of 101.000 ordinary shares of nominal value of €1 each, at a total premium of €49.900.000.

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.

27. Revaluation reserve

Investments fair value reserve	**2019** **€**	2018 €
1 January	**(23.049)**	17.192
Revaluation of equity instruments at fair value through other comprehensive income	**2.822**	(657)
Revaluation of debt instruments at fair value through other comprehensive income	**28.146**	(39.584)
31 December	**7.919**	(23.049)

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.

28. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2019 and 2018, 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 2017 and, as a result, no special defence contribution in relation to deemed dividend distribution was payable in the current year.

29. Analysis of assets and liabilities by expected maturity

	2019			2018		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and balances with Central Bank	**24.054.654**	**-**	**24.054.654**	45.422.223	-	45.422.223
Placements with banks	**3.665.683**	**-**	**3.665.683**	4.400.184	-	4.400.184
Loans and advances to customers	**15.921.334**	**193.700.691**	**209.622.025**	7.904.379	109.603.580	117.507.959
Investments at fair value through other comprehensive income	**100.536**	**2.202.143**	**2.302.679**	-	2.172.230	2.172.230
Investments at amortised cost	**1.699.229**	**23.265.937**	**24.965.166**	2.927.874	15.132.084	18.059.958
Other assets	**2.866.253**	**-**	**2.866.253**	2.236.286	-	2.236.286
Property and equipment	**50.330**	**7.239.504**	**7.289.834**	-	6.678.348	6.678.348
Intangible assets	**77.335**	**613.961**	**691.296**	22.803	706.937	729.740
	48.435.354	**227.022.236**	**275.457.590**	62.913.749	134.293.179	197.206.928
Liabilities						
Customer deposits	**77.696.116**	**146.888.365**	**224.584.481**	62.954.157	96.607.103	159.561.260
Funding from central banks	**-**	**9.300.000**	**9.300.000**	-	-	-
Other borrowings	**867.684**	**8.407.656**	**9.275.340**	402.899	4.948.785	5.351.684
Provisions and other liabilities, excluding lease liabilities	**3.981.884**	**43.152**	**4.025.036**	1.822.100	93.310	1.915.410
Lease liabilities	**212.769**	**893.882**	**1.106.651**	-	-	-
	82.758.453	**165.533.055**	**248.291.508**	65.179.156	101.649.198	166.828.354

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.

30. Operating lease commitments

Commitments under operating leases are as follows:

Software licences

	2019	2018
	€	€
Within one year	**-**	54.383

Properties

	2019	2018
	€	€
Within one year	**-**	205.750
Between two and five years	**-**	876.650
Over five years	**-**	416.800
	-	1.499.200

The Bank's commitments for software licences are non-cancellable.

31. Net cash flow from operating activities

	2019	2018
	€	€
Loss before tax	**(3.172.050)**	(5.136.143)
Adjustments:		
Depreciation of property and equipment	**702.140**	493.216
Amortisation of intangible assets	**369.928**	702.853
Loss allowance	**25.680**	190.208
Fair value loss on revaluation of financial assets	**-**	20.000
Gain on disposal of financial instruments	**(1.294)**	(12.783)
Net foreign exchange gains	**(39.046)**	(25.818)
Net loss on disposal / write-off of property and equipment	**28.292**	-
Write-off of other receivables	**1.241**	-
Interest expense on lease liabilities	**35.400**	-
Amortisation of premiums / discounts on debt securities	**(348.510)**	(58.951)
	(2.398.218)	(3.827.418)
Increase in operating assets:		
Obligatory balances held with the Central Bank	**(651.366)**	(1.032.777)
Long-term placements with banks	**(1.173.847)**	-
Loans and advances to customers	**(92.189.137)**	(54.374.201)
Other assets	**(629.967)**	(811.536)
	(97.042.535)	(60.045.932)
Increase in operating liabilities:		
Customer deposits	**65.023.221**	99.951.318
Other borrowings	**3.923.656**	2.346.947
Provisions and other liabilities, excluding lease liabilities	**2.159.784**	(55.823)
Net cash flow (used in) / from operating activities	**(25.935.874)**	42.196.510

The total cash outflow for lease liabilities for the year amounted to €213.938.

32. Cash and cash equivalents

	2019	2018
	€	€
Cash and non-obligatory balances with the Central Bank (*Note 12*)	**21.910.195**	43.929.130
Short-term placements with banks (*Note 13*)	**2.491.836**	4.400.184
	24.402.031	48.329.314

At 31 December 2019, placements with the Central Bank amounted to €19.645.729 (2018: €41.311.317).

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 department 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 department 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 department 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, with certain amendments implemented in September 2016. 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 department provides its opinion in terms of portfolio allocation, liquidity and capital impact for exposures above the same threshold. Within the year, 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 department perform audits of the loan origination process for the entire portfolio on a sample-selection basis.

New products are reviewed by Compliance, Legal and Risk Management 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 department communicates credit risk issues to the Board of Directors through its Risk Committee on a quarterly basis. Standardised reports to the Supervision Department of the CBC are sent on a monthly and quarterly 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 department 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 high-level processes which are 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 department 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 department

The Risk Management department is responsible for the risk appetite of the Bank 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 daily
- Adequacy in provisions: monitored daily
- Non-performing exposures: monitored daily
- 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 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
- Arrears / excesses: ad-hoc monitoring

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 department’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.

	2019	2018
	€	€
Balances with Central Bank (*Note 12*)	**19.645.729**	41.311.317
Placements with banks (*Note 13*)	**3.665.683**	4.400.184
Loans and advances to customers, net of loss allowance (*Note 14*)	**209.622.025**	117.507.959
Debt investments at fair value through other comprehensive income, net of loss allowance (*Note 16*)	**2.215.938**	2.088.311
Investments at amortised cost, net of loss allowance (*Note 17*)	**24.965.166**	18.059.958
Other assets (*Note 19*)	**2.866.253**	2.236.286
Total on statement of financial position	**262.980.794**	185.604.015
Undisbursed loan facilities	**20.756.207**	17.329.824
Undrawn overdraft facilities	**7.959.228**	5.554.352
Letters of guarantee	**5.324.952**	5.243.267
Unutilised trade finance limits	**987.725**	637.870
Total off-balance sheet position (*Note 37*)	**35.028.112**	28.765.313
Loss allowance on financial guarantees and commitments (*Note 25*)	**(43.153)**	(93.310)
Off-balance sheet position, net of loss allowance	**34.984.959**	28.672.003
Total credit exposure	**297.965.753**	214.276.018

33. Risk management (continued)

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.

The Bank has not provided any credit facilities to 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 for the reported financial year, apart from negligible amounts provided to key management personnel.

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 2019, 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 2019, there have been no significant changes in the quality of collaterals obtained.

As at 31 December 2019, credit-impaired loans amounted to €206.918 for which collateral held as security consisted of property mortgages of value €191.000, personal guarantees for the amount of €43.000 and life insurances of value €342.589.

As at 31 December 2019, for a total exposure of €1.471.696 of which €1.296.409 represented undisbursed amounts, no ECL was recognised due to the collaterals in place.

Loss allowance movement and stage classification per financial asset type

Loans and advances to customers

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross value	**€**	**€**	**€**	**€**
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**

The reduction of the loss allowance by €170.685 as a result of changes to models and inputs used for ECL calculations, was mainly driven by the removal of the conservative component of 1 additional point to each customer's credit score from within the impairment allowance calculation as mentioned under Note 2.9. Specifically this change caused a reduction of the loss allowance by €196.206.

	2018			
Gross value	**Stage 1 €**	**Stage 2 €**	**Stage 3 €**	**Total €**
Retail	78.671.942	936.882	2.648	79.611.472
Business	37.208.143	1.139.911	1.494	38.349.548
	115.880.085	2.076.793	4.142	117.961.020
Loss allowance				
Retail	169.307	25.676	888	195.871
Business	214.324	42.866	-	257.190
	383.631	68.542	888	453.061

The criteria met for the loan facilities classified as Stage 2 as at 31 December 2018 were:

- Up to 30 days past due - €19.957
- Significant increase in credit risk / above risk of default threshold - €2.056.836

33. Risk management (continued)

	2018			
Loss allowance	**Stage 1 €**	**Stage 2 €**	**Stage 3 €**	**Total €**
As at 1 January	278.046	46.188	-	324.234
New assets originated or purchased	202.158	-	-	202.158
Transfers to Stage 1	275	(275)	-	-
Transfers to Stage 2	(43.859)	43.859	-	-
Transfers to Stage 3	(888)	-	888	-
Changes to models and inputs used for ECL calculations	(49.604)	(16.454)	-	(66.058)
Assets derecognised or repaid	(2.497)	(4.776)	-	(7.273)
As at 31 December	383.631	68.542	888	453.061
Individually assessed	-	-	888	888
Collectively assessed	383.631	68.542	-	452.173
	383.631	68.542	888	453.061

Investments at fair value through other comprehensive income

	2019		**2018**	
Gross value	**Stage 1 €**	**Total €**	**Stage 1 €**	**Total €**
Bonds	**2.216.246**	**2.216.246**	2.088.763	2.088.763
Loss allowance				
Bonds	**308**	**308**	452	452

	2019		2018	
Loss allowance	**Stage 1 €**	**Total €**	Stage 1 €	Total €
As at 1 January	**452**	**452**	198	198
New assets originated or purchased	**7**	**7**	-	-
Changes to models and inputs used for ECL calculations	**(151)**	**(151)**	254	254
As at 31 December	**308**	**308**	452	452
Individually assessed	**308**	**308**	452	452

33. Risk management (continued)

Investments at amortised cost

	2019		2018	
	Stage 1	Total	Stage 1	Total
Gross value	€	€	€	€
Bonds	**24.988.609**	**24.988.609**	18.082.491	18.082.491
Loss allowance				
Bonds	**23.443**	**23.443**	22.533	22.533

	2019		2018	
	Stage 1	Total	Stage 1	Total
Loss allowance	€	€	€	€
As at 1 January	**22.533**	**22.533**	15.111	15.111
New assets originated or purchased	**13.587**	**13.587**	17.367	17.367
Changes to models and inputs used for ECL calculations	**(5.528)**	**(5.528)**	-	-
Assets derecognised or repaid	**(7.149)**	**(7.149)**	(9.945)	(9.945)
As at 31 December	**23.443**	**23.443**	22.533	22.533
Individually assessed	**23.443**	**23.443**	22.533	22.533

Financial guarantees and commitments

	2019	
	Stage 1	Total
Gross exposure	€	€
Letters of guarantee	**5.324.952**	**5.224.952**
Unutilised trade finance limits	**987.725**	**1.102.725**
Undisbursed loan facilities	**20.756.207**	**20.756.207**
Unutilised overdrafts	**7.959.228**	**7.944.228**
	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**

33. Risk management (continued)

	2019			
Loss allowance	**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**

	2018		
Gross exposure	**Stage 1 €**	**Stage 2 €**	**Total €**
Letters of guarantee	5.238.267	5.000	5.243.267
Unutilised trade finance limits	637.870	-	637.870
Undisbursed loan facilities	15.829.824	1.500.000	17.329.824
Unutilised overdrafts	5.225.432	328.920	5.554.352
	26.931.393	1.833.920	28.765.313
Loss allowance			
Letters of guarantee	15.799	20	15.819
Unutilised trade finance limits	6.386	-	6.386
Undisbursed loan facilities	19.567	35.216	54.783
Unutilised overdrafts	11.311	5.011	16.322
	53.063	40.247	93.310

	2018		
Loss allowance	**Stage 1 €**	**Stage 2 €**	**Total €**
As at 1 January	40.614	1.763	42.377
New assets originated or purchased	70.823	-	70.823
Transfers to Stage 1	17	(17)	-
Transfers to Stage 2	(40.056)	40.056	-
Changes to models and inputs used for ECL calculations	(16.684)	3.656	(13.028)
Assets derecognised or repaid	(1.651)	(5.211)	(6.862)
As at 31 December	53.063	40.247	93.310
Individually assessed	-	36.643	36.643
Collectively assessed	53.063	3.604	56.667
	53.063	40.247	93.310

33. Risk management (continued)

Credit quality of loans and advances to customers

	2019	2018
	€	€
Neither past due nor impaired	**207.238.381**	117.913.251
Past due but not impaired:		
- Up to 30 days	**2.416.630**	19.957
- 31 to 60 days	**930**	11.636
- 61 to 90 days	**287.298**	12.034
Impaired	**206.918**	4.142
	210.150.157	117.961.020
Loss allowance on loans and advances to customers (*Note 14*)	**(528.132)**	(453.061)
	209.622.025	117.507.959

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 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.

	2019	2018
	€	€
Band 1	**66.962.544**	50.197.771
Band 2	**99.810.921**	57.964.450
Band 3	**40.345.776**	9.625.269
Band 4	**110.325**	122.730
Band 5	**8.815**	3.031
	207.238.381	117.913.251
Loss allowance on loans and advances to customers	**(480.373)**	(447.239)
	206.758.008	117.466.012

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.

	2019	2018
	€	€
Band 1	**814.097**	6.265
Band 2	**1.660.676**	15.261
Band 3	**230.084**	22.101
	2.704.857	43.627
Loss allowance on loans and advances to customers	**(47.760)**	(4.934)
	2.657.097	38.693

Facilities shown as past due but not impaired as at 31 December 2019 represent 22 loan facilities with actual arrears amount of €14.919 and 297 current accounts with excess amount of €11.699 (2018: 18 facilities with actual arrears amount of €19.143 and 97 current accounts with excess amount of €968).

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 3 loans and 13 current accounts (2018: 87 current accounts), which have been classified as impaired based on days past due.

	2019	2018
	€	€
Band 1	**181.123**	-
Band 2	**9.317**	-
Band 3	**16.478**	-
Band 5	**-**	4.142
	206.918	4.142
Loss allowance on loans and advances to customers	**-**	(888)
	206.918	3.254

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 2019 amounted to €575.813.534 (2018: €327.311.074).

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 2019 amounted to €191.000 (2018: €nil).

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:

	2019	2018
	€	€
AAA to A-	**22.090.518**	44.544.238
BBB+ to BBB-	**1.002.220**	1.167.263
Unrated	**218.674**	-
	23.311.412	45.711.501

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

	2019	2018
	€	€
AAA to A-	**22.183.321**	14.766.020
BBB+ to BBB-	**4.997.783**	5.382.249
	27.181.104	20.148.269

33. Risk management (continued)

Issued by:		
Cyprus government	**-**	1.745.709
Other governments	**6.950.284**	4.064.336
Credit institutions	**7.410.528**	5.475.534
Other financial corporations	**5.655.665**	2.434.878
Non-financial corporations	**7.164.627**	6.427.812
	27.181.104	20.148.269
Classified as:		
Investments at fair value through other comprehensive income	**2.215.938**	2.088.311
Investments at amortised cost	**24.965.166**	18.059.958
	27.181.104	20.148.269

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 €3.147.016 while the total difference in PV of economic value from a decrease of interest rates by 200bps is €158.389.

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 department monitors. No investments in equities are allowed without specific approval by the Board of Directors.

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 approximately €20.000 as at 31 December 2019, and as a result, the market risk of the HTCS portfolio is considered low.

33. Risk management (continued)

<u>Currency risk</u>

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 department. 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.

<u>Liquidity risk</u>

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 department monitors compliance with such internal and regulatory limits. Additionally, the ALCO reviews the liquidity position on a monthly basis and takes any necessary actions.

<u>Monitoring process</u>

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.

<u>Main sources of funding</u>

During 2019, 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 2019, central bank funding amounted to €9.300.000 in the form of TLTRO III (2018: €nil). 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 €11.600.000 as at 31 December 2019 (2018: €1.800.000). 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 2019 was €1.916.311 (2018: €1.652.875).

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.

2019	**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	**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**
2018				
Debt investments at FVOCI	-	-	2.088.311	2.088.311
Debt investments at amortised cost	-	-	18.059.958	18.106.411
	-	-	20.148.269	20.194.722
Of which Central Bank eligible for encumbrance	-	-	18.568.720	18.615.173

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 2019 the minimum requirement was 100% (2018: 100%).

The LCR ratio was as follows:

	2019 %	2018 %
End of the reporting period	**344,41**	762,88
Average for the year	**601,87**	808,16
Maximum ratio for the year	**851,22**	1.272,59
Minimum ratio for the year	**344,41**	584,30

As at 31 December 2019, 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 2019, the Bank's NSFR was at 121% (2018: 168%).

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
	€	€	€	€	€	€	€
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**
Provisions and other liabilities, excluding lease liabilities	**4.025.036**	**4.029.463**	**2.961.184**	**212.691**	**309.025**	**43.153**	**503.410**
Lease liabilities	**1.106.651**	**1.273.568**	**15.500**	**32.734**	**164.534**	**903.400**	**157.400**
	248.291.508	**248.943.096**	**162.383.656**	**16.692.956**	**49.576.676**	**13.787.664**	**6.502.144**
2018							
Customer deposits	159.561.260	159.655.892	108.789.041	14.800.474	36.066.377	-	-
Other borrowings	5.351.684	5.499.436	103.861	-	325.901	1.712.537	3.357.137
Provisions and other liabilities	1.915.410	1.915.410	1.209.669	69.146	300.025	93.310	243.260
	166.828.354	167.070.738	110.102.571	14.869.620	36.692.303	1.805.847	3.600.397

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 €
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**
2018						
Letters of guarantee	5.243.267	329.249	658.034	3.081.516	1.105.190	69.278
Unutilised trade finance limits	637.870	637.870	-	-	-	-
Undisbursed loan facilities	17.329.824	17.329.824	-	-	-	-
Undrawn overdraft facilities	5.554.352	5.554.352	-	-	-	-
	28.765.313	23.851.295	658.034	3.081.516	1.105.190	69.278

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 which they could be utilised.
- Undisbursed loan facilities are classified based on the earliest date 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.

33. Risk management (continued)

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.

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 recent key legislations, the aim for debt restructuring is now a priority for most banks in Cyprus.

Reduction of non-performing loans during 2018 and 2019 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 2019 by April 2020. The Bank has received its latest SREP requirement in January 2020 which 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.

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.

34. Capital management (continued)

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 2019, 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 2019 €	31 December 2018 €
Common Equity Tier 1 capital	**26.466.867**	29.661.671
Additional Tier 1 capital	**-**	-
Tier 1 capital	**26.466.867**	29.661.671
Tier 2 capital	**-**	-
Total Regulatory Capital	**26.466.867**	29.661.671
Risk weighted assets - credit risk	**133.544.602**	76.948.187
Risk weighted assets - operational risk	**4.309.994**	1.793.812
Risk weighted assets - market risk	**-**	-
Total Risk Weighted Assets	**137.854.596**	78.741.999
Common Equity Tier 1 ratio	**19,20%**	37,67%
Tier 1 ratio	**19,20%**	37,67%
Total capital ratio	**19,20%**	37,67%
Minimum Ratios as per the CRR / CRD IV		
Common Equity Tier 1 ratio	**7,00%**	6,375%
Tier 1 ratio	**8,50%**	7,875%
Total capital ratio	**10,50%**	9,875%

Following the enactment of the amendments in the Cypriot Banking Law in February 2017 regarding the gradual phase-in of the Capital Conservation Buffer ('CCB'), the CCB as of 1 January 2019 was 2,50% (1 January 2018: 1,875%), reflecting the completion of the phase-in arrangements. As a result, the Bank's minimum Common Equity Tier 1 ('CET1') ratio including CCB phase-in arrangements was 7,00% in 2019 (2018: 6,375%) and the overall Total Capital Ratio was 10,50% in 2019 (2018: 9,875%) on a fully-loaded basis.

34. Capital management (continued)

Taking into consideration the recently received SREP requirement, the Total Capital Ratio requirement as of 1 January 2020 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 revised business plan will enable the Bank to increase its operations substantially during this period and requires a share capital increase, for which the major shareholder of the parent company, Ancoria Investments Plc, has already committed to participate.

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 2019 and 2018 are listed below:

Name / relationship	**Percentage of Share Capital in the parent company**	
	Date of signing this report and 31 December 2019	31 December 2018
	%	%
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 2019 and 31 December 2018 were as follows:

Name	**31 December 2019 %**	31 December 2018 %
Ioannis Loizou	**3,40**	3,40
Evgenia Christodoulou	**N/A**	0,08
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% (2018: 38,6%) of the Company's issued share capital.

	2019 €	2018 €
Deposits		
Members of the Board of Directors and key management personnel	**941.954**	732.386
Parent company	**24.164**	24.097
Entity with significant influence	**2.054**	6.811
Other related parties	**4.563.551**	3.174.573
	5.531.723	3.937.867
Interest expense	**6.259**	10.067

	2019 €	2018 €
Loans and advances		
Members of the Board of Directors and key management personnel	**343.889**	-
Other related parties	**82.324**	64.053
	426.213	64.053
Interest income	**3.537**	1.422

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 €2.874.128 (2018: €1.434.468), 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 €33.600 (2018: €20.850).

During 2019, the Bank recognised a total income amounting to €16.560 (2018: €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

	2019	2018
	€	€
Non-executives		
Membership fees (*Note 10*)	**143.537**	104.819
Executives		
Salaries and other short-term benefits	**324.405**	347.850
Employer's contributions to pension plan	**19.879**	20.871
Other employer's contributions	**21.560**	17.292
	365.843	386.013
	509.381	490.832

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*)

		2019	2018
Name	**Nature of transactions**	**€**	€
Ancoria Investments Plc	Current account balance	**126.860**	108.066

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.

Rental and subsequent acquisition of premises

On 2 December 2016, an entity controlled by directors of the Bank acquired the rented premises of the Bank in Limassol. The Bank consented to the sale agreement on the condition that its rights and obligations for the remaining term of its rental agreement, as well as any other rights and obligations of the Bank were retained and that a new agreement would be signed between the Bank, the previous and the current owners of the property by virtue of which the new owner would be bound by the existing rental terms towards the Bank. The said agreement was signed on 2 December 2016.

On 20 December 2017, the Bank entered into an agreement to acquire its rented premises in Limassol. In accordance with the terms of the agreement, the Bank will pay a sum of €4.100.000 in tranches. The consideration is considered to have taken place at an arm's length based on supporting valuation reports provided by independent valuators.

35. Related party transactions (continued)

The first payment of €2.122.959 was made on 20 December 2017 and was recognised under property and equipment along with the relevant stamp duty paid. The second payment of €1.577.041 was made on 29 May 2018, at which point the ownership of the premises was transferred to the Bank, with an additional €100.000 paid during 2018. The residual amount of €300.000 for which a creditor has been recognised (and remains outstanding as at 31 December 2019), 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, along with interest at 2% per annum as of 1 July 2018, is owed towards the initial owner (pre 2 December 2016) of the property, pursuant to an arrangement entered into between the latter and the entity that acquired the property on 2 December 2016.

36. Operating environment

The Cypriot economy displayed, similarly to 2018, positive performance. GDP growth is estimated for 2019 to reach 3.2% compared to 3.9% in 2018, whilst inflation remained at a low 0.5% and unemployment fell further to 7.0% compared with 8.7% in 2018. According to Treasury's forecasts, debt will rise to 97% in 2019 with a forecast to fall to 81% by 2022. The Republic of Cyprus has made an early repayment of the loan it had received from Russia and plans in 2020 to make an early repayment of the loan received from the International Monetary Fund.

The strong performance of the economy is driven by private consumption, tourism and services. Private consumption has benefited from the rapid expansion of employment in all sectors, which has led to a significant reduction in unemployment, whilst tourism, services and shipping are providing a significant contribution to development.

The introduction of the General Health System has created surpluses in the General Government's fiscal budget as the contributions to the health system were initiated as of 1 March 2019, as opposed to the provision of services that began on 1 June 2019.

The Cyprus sovereign is rated by international rating agencies Standard & Poor's and Fitch within the BBB investment tier with a stable horizon and outlook which should enable relatively easier management of fiscal debt levels. In parallel, the Republic of Cyprus has successfully issued 5-year, 15-year and 30-year bonds totalling €2.75 billion in 2019.

The hydrocarbon deposits discovered in the Exclusive Economic Zone of the Republic of Cyprus are expected to give additional impetus to investments in the energy sector.

<u>Predictions</u>

Although according to the Macroeconomic and Budgetary Forecasts of the Ministry of Finance, the budgetary balance in 2020 was projected to be in surplus and to reach 2.7% as a percentage of GDP, while the primary surplus was projected to be around 5.1% of GDP, the spread of the coronavirus ('COVID-19') and the government's announced measures are projected to have a negative impact on both GDP growth and surplus of the primary balance. It is not yet possible to accurately calculate the impact that the outbreak, as well, as the measures taken will have on the Cypriot economy and its GDP projections.

Based on the above initial forecasts, public debt in 2020 would fall to €20.4 billion and as a percentage of GDP to be limited to 91.1%. The downward trajectory of government debt as a percentage of GDP was expected to continue in the coming years and fall to 85.9% and 81.1% at the end of 2021 and 2022 respectively.

According to the European Commission's winter forecasts, the Cypriot economy would continue to be robust and expected to grow in 2020 though at a slower pace than previous years. Lower expectations for 2020 are affected by the weak growth of the euro area, as well as, the uncertainties of major countries trading with Cyprus. Additionally, the construction sector may be affected by the passport restriction programme for third-country residents.

36. Operating environment (continued)

Inflation was expected to reach 0.5% in 2019 and for 2020 it is estimated that there will be an increase of up to 0.8% mainly due to the increase in disposable income.

The COVID-19 outbreak, which has forced the World Health Organisation to declare it a pandemic, is bound to affect the economies of the world due to the drastic measures taken to contain it.

In addition to COVID-19, the risks that the Cypriot economy may face relate to the international economic environment which is still unstable, due to the ongoing tension in trade relations and geopolitical developments in the surrounding Eastern Mediterranean region, including the migration problem. The slowdown in global growth, particularly in the euro area economies and other important trading partners of Cyprus, has started to become apparent and if it continues longer than expected it will have a negative impact on key forecasts. In addition, uncertainty exists as to how the European Union will cooperate with the United Kingdom after its withdrawal.

Banking environment

The banking system in Cyprus now enjoys the trust of depositors. The excess liquidity held by banks is indicative of the credibility towards all banks. This confidence has not changed in spite of the zero interest rates applied. In some cases, negative interest rates have also been imposed on certain categories of customers.

Confidence in the banking system is also boosted by the positive returns of the economy, and its investment grade ranking by international rating agencies.

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

- sales of loans to non-performing loan management companies
- the management of non-performing loans by specialised companies in this area
- the assumption of the non-performing portfolio of the Cooperative Cyprus Bank by the State as a result of its absorption by Hellenic Bank
- the intensive efforts of banks to settle non-performing loans using the method of debt swapping with real estate

As a result of the banking system's actions, the non-performing exposure ratio decreased to 29% compared to 45% two years ago.

Despite the decline in non-performing loans, the challenges of the financial sector remain as high rates of non-performing loans and private debt persist. Additionally, excess liquidity in a negative interest rate environment has an adverse impact on banks' results.

The gradual implementation by 2025 of the new European requirement to comply with the Minimum Requirement for own funds and Eligible Liabilities (‘MREL’) may put further pressure on banks' balance sheets.

Effects of developments

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:

	2019	2018
	€	€
Contingent liabilities		
Letters of guarantee	**5.324.952**	5.243.267
Unutilised trade finance limits	**987.725**	637.870
	6.327.677	5.881.137
Commitments		
Undisbursed loan facilities	**20.756.207**	17.329.824
Undrawn overdraft facilities	**7.959.228**	5.554.352
	28.715.435	22.884.176
	35.028.112	28.765.313

The Bank's commitments in respect of operating leases are presented in Note 30.

Capital commitments

As at 31 December 2019 and 2018, there were no significant commitments for contracted capital expenditures of the Bank other than the residual amounts owed in accordance with the agreement for the acquisition of the premises in Limassol as mentioned in Note 34.

Legal proceedings

As at 31 December 2019 and 2018, there were no pending litigation, claims or assessments against the Bank.

38. Events after the reporting date

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.

With the recent and rapid development of the coronavirus ('COVID-19') outbreak, the world economy entered a period of unprecedented health care crisis that has already started causing considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures requiring in some cases companies to limit or even suspend normal business operations and governments to implement restrictions on travelling as well as strict quarantine measures.

Certain industries such as tourism, hospitality and entertainment are expected to be disrupted significantly by these measures whereas others like manufacturing and financial services are expected to incur sideway losses. Considering these unfortunate circumstances, the pace at which the outbreak expands, the uncertain time horizon that the abovementioned extraordinary measures will be applied, and due to the high level of uncertainties in relation to the unpredictable outcome of this outbreak, the financial effect of the current crisis on the global economy and the overall business activities going forward is not possible to be estimated with reasonable certainty at this stage.

38. Events after the reporting date (continued)

As a result of the pandemic, within its April 2020 world economic outlook report, the International Monetary Fund ('IMF') projects that the global economy will contract by -3% in 2020, much worse than during the 2008–09 financial crisis. Under a baseline scenario which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the IMF projects that as economic activity normalizes, assisted by policy support, the global economy will grow by 5.8% in 2021. For the Euro area, the projection is more severe, with a projected contraction of -7.5% in 2020 and a 4.7% recovery in 2021.

In Cyprus, following the extraordinary meeting of the Council of Ministers of the Republic that took place on 15 March 2020, considering the fluid situation as it unfolds daily given the growing spread of COVID-19 and based on the World Health Organization's data on the situation, the Council of Ministers announced that it considers that Cyprus is entering a state of emergency. To this end, certain measures have been taken with a view to safeguarding public health and ensuring the economic survival of working people, businesses, economically vulnerable groups and the economy at large. More specifically, new entry regulations have been announced with regard to protecting the population from a further spread of the disease tightening the entry of individuals in Cyprus. Additionally, a considerable number of private businesses of different types was decided to remain closed as of 16 March 2020 and for a period of four weeks, whereas hotels would suspend their operations until 30 April 2020. In addition, on 23 March 2020, by announcement of the President of the Republic, it was clarified that all retailers (with very limited exceptions) should be suspending their operations until further notice. These public policy measures put in place to contain the spread of COVID-19 are expected to result in significant operational disruption to the operations of the Bank.

In an attempt to bolster households and businesses battered by the COVID-19 crisis, the House of Parliament voted for the Emergency Measures by Financial Institutions and Supervisory Authorities Law of 2020, based on which a Ministerial Decree by the Minister of Finance was issued on 30 March 2020, calling for the suspension of the obligation to pay principal and interest payments on credit exposures of individuals, self-employed and businesses until 31 December 2020 subject to the condition that such credit exposures were not presenting arrears of more than 30 days on 28 February 2020. The plan will apply for the period April - December 2020 to those individuals, self-employed and businesses who wish to apply for their participation. By decision through the Association of Cyprus Banks, all member banks have agreed that during the period of suspension of payments, credit exposures falling under the provisions of the Ministerial Decree and for which suspension will be initiated following an interest on the part of the customer, no interest-bearing interest will apply. This decision is considered not to have a material impact on the Bank's capital adequacy or profitability.

Additionally, the European Central Bank has decided on a series of measures to deal with the COVID-19 consequences. Among other things, it has agreed with the decision of the European Banking Authority ('EBA') to postpone the submission of stress tests for 2020, as well as, to provide easing to supervisory capital and liquidity ratios. Financial institutions will also be able to draw liquidity from the Eurosystem on significantly favourable terms. On a parallel action, the European Securities and Markets Authority ('ESMA') after cooperation with the EBA issued a public statement on 25 March 2020 in accordance with which both authorities consider that the implementation of public or private decisions aimed at addressing the negative systemic effects of COVID-19 should not be considered as an automatic indication that a significant increase in credit risk has taken place.

At the same time, coordinated actions are taking place at pan-European level to support the liquidity of banks. The European Central Bank announced liquidity stimulus measures such as additional long-term refinancing actions ('LTRO'), more favourable conditions in TLTRO III refinancing actions and additional bond purchases of €120 billion by the end of the year, in conjunction with the existing programme markets, which are expected to contribute to maintaining favourable liquidity conditions and may have a positive impact on borrowing costs. It also announced a new one-off pandemic asset purchase programme with a total value of €750 billion.

38. Events after the reporting date (continued)

Furthermore, concessions have been announced with regards to the capital adequacy and liquidity ratios whereby banks are temporarily able to operate below the Pillar II ('P2G') equity buffer, Capital Conservation 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.

As a first response to the announcement of being in a state of emergency, the management has reviewed the operational continuity plan of the Bank, as well as, its ability to maintain its business operations within these particular conditions in order to support its customers during this difficult period. Actions included the activation of the business continuity plan ('BCP'), adapted for the event of a pandemic to ensure a coordinated response to events that could potentially disrupt its activity. A series of predefined actions were triggered, but the usual BCP procedures were expanded to further reduce any risks. As a result, the predefined action of ensuring that staff of critical functions were able to work from home, was significantly extended to include all Head Office staff to the maximum extent possible, without compromising any functions or downgrading the level of services the Bank is offering. In respect of staff working at the business centres, these were divided into groups, alternating between them on a rotational basis.

The existing remote work capability of the Bank has been significantly upgraded and additional equipment has been provided to all staff, allowing for the successful and timely implementation of their work, ensuring that all functions can be performed from alternate locations without interruption. At the same time, BCP processes are also applied to the Bank's suppliers, counterparties and technology providers, ensuring a continuous flow of services and goods to the Bank. Furthermore, the Bank has taken all precautionary actions suggested by the Ministry of Health in relation to health and safety for its employees, customers and partners, including the decontamination of premises, the provision of protective gear for everyday activities and the implementation of social distancing procedures.

The Bank's management has considered the unique circumstances and the risk exposures of the Bank and has concluded that the main impacts on the Bank's profitability / liquidity position may arise from:

- Incapacity to meet business plan objectives;
- Increase in expected credit losses across most sectors;
- Withdrawal of deposits;
- Increased volatility in the value of financial instruments;
- Unavailability of personnel;
- Breach of financial covenants and failure to meet contractual obligations;
- Increased operating costs due to employees working remotely.

Based on the main impacts identified and in order to assess actual and potential financing needs, the management is in the process of reassessing the Bank's trading and relevant cash flows using revised assumptions and incorporating down-side scenarios. From the analysis performed no additional liquidity needs have been identified. However, as a means of prudency, the management is already in the process of assessing future measures and alternative sources of financing as a response to adverse scenarios. Such measures include additional financing, cost-cutting policies and disposal of investments.

The Bank's management will continue to monitor the situation closely and implement additional measures in case the period of disruption becomes prolonged.

Independent auditor's report on pages 97 to 101.

Deloitte Limited
Maximos Plaza
Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O. Box 58466
CY-3734 Limassol, Cyprus

Tel: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

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 9 to 96 and comprise the statement of financial position as at 31 December 2019, 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 2019, 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 (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.

Emphasis of Matter

We draw attention to Note 38 of the financial statements, which describes the significant uncertainty associated with the COVID-19 pandemic and its impact on the global, as well as the Cypriot economy. Due to the aforementioned events, there may be an adverse impact on the global, as well as the Cypriot economy which could potentially affect the Bank's operations, financial position and financial performance. However, the impact of such developments cannot be reasonably determined and quantified at this stage due to the significant uncertainty as to the precise impact and duration of this pandemic. Our opinion is not modified in respect of this matter.

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.

Deloitte.

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
Loss allowance for loans and advances to customers	
Gross loans and advances to customers amounted to €210.150.157 as at 31 December 2019 (€117.961.020 as at 31 December 2018), while loss allowance on loans and advances to customers as at 31 December 2019 amounted to €528.132 (€453.061 as at 31 December 2018). The Bank determines loss allowances due to impairment 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 since, the determination of the assumptions used by Management is highly subjective due to the high degree of judgement applied by Management for estimating expected credit losses. Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include: ▪ Criteria for the identification of exposures with significant increase in credit risk and credit-impaired exposures ▪ 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 ▪ Inputs and assumptions used to estimate the impact of multiple economic scenarios ▪ Valuation of collateral and assumptions over future cash flows on individually assessed credit-impaired exposures, including the assessment of multiple scenarios ▪ Accuracy and sufficiency of the related financial statement disclosures. Management has provided further information with respect to the accounting principles and accounting policies for the determination of loss allowances on loans and advances to customers due to impairment, with respect to the management of credit risk and with respect to the recognition of such loss allowances, in Notes 2.9, 3.2 and 33 to the financial statements.	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, which included, inter alia, the following audit procedures: ▪ The credit granting process of the Bank was compared with the Central Bank of Cyprus' requirements (based on applicable regulations and directives) to identify and assess the impact of any discrepancies. ▪ The controls in place for the credit granting process were reviewed and their adequacy, in terms of design and implementation and operating effectiveness, was assessed. ▪ An assessment of 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''. ▪ An assessment of the design and implementation of internal controls relevant to the audit, 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 controls over manual processes for valuation of collateral. ▪ With the support of our internal credit risk specialists, we have obtained and tested evidence to support the appropriateness of probability of default, loss given default and exposure at default assumptions. ▪ With the support of our internal credit risk and modelling specialists, we assessed the impairment methodology of the Bank, re-performing certain key steps so as to gain assurance over the validity and consistency of calculations in relation to collective assessment allowances. ▪ Obtained and tested evidence of timely identification of exposures with significant increase in credit risk and timely identification of credit-impaired exposures. ▪ On a sample basis 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. ▪ We assessed whether the disclosures appropriately disclose and address the uncertainty, which exists when determining the expected credit losses. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear. The above procedures were completed in a satisfactory manner.

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 designed and operate effectively to ensure complete and accurate financial records / information.	Based on our risk assessment, we have tested the design and operating effectiveness of General Information Technology Controls relevant to financial reporting. 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.

Deloitte.

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, related safeguards.

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.

Deloitte.

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 5 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 29 April 2020 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.

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

Nicosia, 30 April 2020

ADDITIONAL RISK DISCLOSURES (UNAUDITED)

Credit Risk

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

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[2]	87.843	17			340	17		
Of which: Commercial real estate[2]	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	1			55			
Real estate activities	32.489				144			
Professional and scientific services	6.424				20			
Education	2.592				1			
Other sectors	10.250	17			48			
Households	**118.857**	**190**			**179**	**26**		
Of which: Residential mortgage loans[2]	91.250				117			
Of which: Credit for consumption[2]	10.162	26			38	26		

Credit Risk (continued)

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

As at 31 December 2018

	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	**117.961**	**4**			**453**	**1**		
General governments								
Other financial corporations	**1.038**				**6**			
Non-financial corporations	**37.312**	**2**			**251**			
Of which: Small and Medium-sized Enterprises[3]	34.286	2			187			
Of which: Commercial real estate[3]	19.105				76			
Non-financial corporations by sector								
Agriculture, forestry and fishing	1.280	1			6			
Manufacturing	2.510				7			
Construction	7.305				55			
Wholesale and retail trade	3.686	1			36			
Real estate activities	6.876				45			
Professional and scientific services	4.402				10			
Education	4.083				4			
Other sectors	7.170				88			
Households	**79.611**	**2**			**196**	**1**		
Of which: Residential mortgage loans[3]	64.682				160			
Of which: Credit for consumption[3]	5.199	2			13	1		

[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 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**

[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 2018

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	48.624	2	202	20.484	1	105	1.038	-	6	27.103	1	92
1 - 2 years	44.086	2	144	10.008	1	85	-	-	-	34.078	1	59
2 - 3 years	25.232	-	107	6.803	-	61	-	-	-	18.429	-	45
3 - 5 years	19	-	-	17	-	-	-	-	-	1	-	-
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**117.961**	**4**	**453**	**37.312**	**2**	**251**	**1.038**		**6**	**79.611**	**2**	**196**

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