ANCORIA BANK

banking redefined

# ANNUAL FINANCIAL REPORT 2021

# Contents

## Board of Directors

Dr. Andreas C. Kritiotis (Chairman – independent)
Charalambos Panayiotou (Vice Chairman)
Chloi Kyprianou Bohm (Non-executive independent)
Dr. Marios Clerides (Non-executive independent)
Bo Sievert Larsson (Non-executive)
Panayiotis Mavromichalis (Non-executive) – resigned 01 September 2021
Athena Papadopoulou (Non-executive independent)
Alexandra Spyrou (Non-executive independent)
Charidemos Theocharides (Non-executive independent)
Ioannis Loizou (Executive)
Nicolas Prentzas (Executive)

## Secretary

Myria Agapiou

## Chief Executive Officer

Ioannis Loizou

## Chief Financial Officer

Savvas Pashias (until 5 October 2021)
Kyriacos Christodoulou

## Registered Office

12 Demostheni Severi
1st floor
1080 Nicosia
Cyprus

## Legal Advisors

Chryssafinis & Polyviou LLC
George Z. Georgiou & Associates LLC

## Independent Auditors

PricewaterhouseCoopers Ltd

## Tax Advisors

KPMG Limited

The Board of Directors of Ancoria Bank Limited (the 'Company' or the 'Bank') presents to its shareholders its report together with the the audited financial statements of the Bank for the year ended 31 December 2021.

## 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, which remains unchanged from prior year, involves the provision of banking services in Cyprus on the basis of the license granted by the Central Bank of Cyprus ('CBC').

On 14 October 2013, the Company filed an application with the CBC for a banking licence to enable it 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 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 began operations as a Credit Institution in the last quarter of 2015.

## Changes in group structure

There were no changes in the group structure that the Bank is part of during the year ended 31 December 2021.

## Operating environment of the Bank

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 closely monitors the developments in the economic and political environment in which it operates and takes 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 a revised 3-year business plan on the 6th April 2022, which will allow the Bank to fulfil its business objectives in a sustainable manner. The assumptions made and parameters utilised to bring forward resulting figures were considered the most realistic to materialise based on readily available information and expectations for the Bank's short to medium-term strategy.

On 24 February 2022, Russia launched a military operation in Ukraine. Many governments are taking increasingly stringent measures against Russia and Belarus in the form of sanctions. These measures have already slowed down the economies both in Cyprus and globally, with the potential of having wider impacts on the respective economies as the measures persist for a greater period of time. The conflict may have serious consequences on the Cyprus economy and also worldwide, which are difficult to precisely estimate. The main concern at the moment is the rise of inflation, the uncertainty mainly about tourism and financial services sectors and the increased energy costs, which will affect household incomes and business operating costs. Due to the unpredictability of the above, in combination with the residual effects of COVID-19 pandemic in the economy, the full impact on the future profitability of the Bank is difficult to estimate.

The Bank's management believes that it is taking all the necessary measures to safeguard the Bank's ability to continue as a going concern and to maintain its viability and the development of its business in the current economic environment. Detailed information about the operating environment is set out in Note 35 to the financial statements.

## Future Developments

The Board of Directors will continue to closely monitor the current political and economic environment and will take measures in case of significant exposures.

## Board of Directors

The members of the Company's Board of Directors as at 31 December 2021 and as of the date of this report are presented on page 2. All of them were members of the Board throughout the year 2021, except for Mr. Panayiotis Mavromichalis who resigned on the 1st of September 2021. There were no other significant changes in the composition or distribution of responsibilities of the Board of Directors during the year ended 31 December 2021.

In its efforts to discharge its duties effectively, the Board of Directors convened 13 times during 2021, while the Board of Directors' Committees convened as follows:

- Audit Committee - 14 times
- Risk Committee – 9 times
- Remunerations and Nominations Committee - 6 times

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

The remuneration of the members of the Board of Directors is disclosed in Note 34 of the financial statements.

## Financial Results and Financial Position

The Bank's results for the year are set out on page 8.

The main financial highlights of the Bank for year 2021 are as follows:

| | **2021** | As restated 2020 |
|---|---|---|
| | **€** | € |
| **Profit or Loss** | | |
| Net interest income | **7.490.686** | 5.069.963 |
| Operating income | **8.900.322** | 6.211.062 |
| Profit/(loss) before credit loss allowance | **781.110** | (1.030.642) |
| Decrease/ (increase) in credit loss allowance | **216.716** | (715.353) |
| Profit/(loss) before tax | **997.826** | (1.745.995) |
| Profit/(loss) for the year | **997.789** | (1.745.833) |
| Profit/(loss) per ordinary share in issue (€)[1] | **8,20** | (15,10) |

[1] Profit/(loss) per ordinary share is calculated by dividing the profit/(loss) for the year by the weighted average number of ordinary shares outstanding during the period.

| | **2021** | As restated 2020 |
|---|---|---|
| | **€** | € |
| **Key Financial Position figures and ratios** | | |
| Customer deposits | **369.179.482** | 296.260.609 |
| Loans and advances to customers (gross) | **307.987.440** | 272.574.016 |
| Loans and advances to customers (net) | **307.037.146** | 271.430.543 |
| Net loans to deposits ratio | **83%** | 92% |
| Credit impaired loans | **476.948** | 314.782 |
| Common Equity Tier 1 Capital ratio | **18,04%** | 18,71% |
| Total Capital ratio | **18,04%** | 18,71% |
| Risk weighted assets | **207.829.565** | 183.238.445 |

**Capital Base**

The primary objective of the Bank's capital management is to ensure compliance with the relevant regulatory capital requirements and maintenance of healthy capital adequacy ratios in order to support its growth and maximise the value for its shareholders.

As at 31 December 2021 the Bank maintains a capital adequacy ratio well above the minimum required by the relevant regulatory authorities. The capital adequacy ratio stood at 18,04% as at 31 December 2021 and at 18,71% as at 31 December 2020 (as restated).

## Dividends

During the year 2021, no dividends were paid or declared by the Bank (2020: €nil).

## Branches

The Bank operates through three branches in Cyprus 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

As at 31 December 2021, there were 126.000 shares (2020: 121.000) issued ordinary shares with a nominal value of €1 each.

Based on a resolution passed by the Board of Directors on 15 October 2021, the Bank has issued and allotted 5.000 ordinary shares of €1 each at a premium of €499 each, to its sole shareholder, Ancoria Investments Plc, for a total subscription price of €2.500.000. Following this allotment, the total share capital of the Bank as at 31 December 2021 amounted to €126.000 with a total share premium of €62.375.000.

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.

## Principal risks and uncertainties

The principal risks assumed by the Bank are banking risks. Such risks expose the Bank mainly to credit risk, operational risk, market risk (including price risk, foreign exchange risk and interest rate risk), liquidity risk and capital risk. Detailed information relating to risk management is set out in Note 32 to the financial statements.

## Risk Management

The Bank considers risk management to be a major process and a significant factor contributing towards the sustainability of its business and safeguarding the interests of its stakeholders. The Bank's risk management programme as described in detail in Note 32 of the financial statements explains how the banking risks that the Bank is exposed to are monitored.

The Board of Directors assisted by the Risk Committee and the Audit Committee, has overall responsibility for the establishment and oversight of the Bank's risk management framework and systems of internal controls.

***Credit risk***

Credit risk is considered to be the most significant risk for the Bank and is adequately and closely monitored by management. The Bank's business model assumes credit risk-taking primarily in its core activity of lending. Before granting any credit the Bank performs a comprehensive assessment based on relevant criteria to ensure that it keeps the risk within its risk appetite. In addition the Board has set internal concentration guidelines for the loan portfolio in terms of industry, product type and borrower's credit quality among others.

Provisioning is an important component of the Bank's credit risk management framework. The Bank has in place credit risk processes to ensure the correct identification of all credit facilities that require provision and timely recognition of adequate provisions. Provisions are measured using a forward looking impairment model in line with the provisions of IFRS 9. Exposure to credit risk is managed by detailed credit risk assessment performed by the business departments prior to the loans origination and by ensuring that adequate collateral is in place. Such assessments are reviewed by the Risk Management Department and exposure to credit risk is managed through regular review of the ability of the counterparties to meet interest and capital payment obligations. For a more detailed analysis of credit risk management policies and procedures in place refer to Note 32 for further details.

***Liquidity risk***

Management monitors the liquidity position of the Bank by using monitoring tools for its treasury operations in order to manage amongst others the liquidity risk. The Treasury Department is responsible for managing liquidity and to ensure compliance with internal and regulatory liquidity policies and to provide direction in respect of actions to be taken regarding liquidity availability.

***Price risk***

The Bank is exposed to securities price risk because of investments held by the Bank and classified at fair value on the statement of financial position. The Bank is not exposed to commodity price risk. To manage its price risk the Bank diversifies its portfolio and the Risk Management Department closely monitors the policies in place.

***Foreign exchange risk***

The Bank is exposed to foreign exchange risk as a result of foreign currency positions held in currencies other than Euro. For a detailed analysis of the Bank's foreign currency exposure refer to Note 32.

## Risk Management (continued)

***Interest rate risk***

Interest rate risk is the risk that changes in the market interest will adversely affect the value of the fixed income portfolio. Interest rate risk in the banking book is the risk that arises from timing differences in the maturity (for fixed rate instruments) and repricing (for floating rate instruments) of the Bank's assets, liabilities and off-balance sheet positions.

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 at each time band. In addition, the lending products of the Bank (other than certain short-term exposures) are priced with floating interest rates limiting exposure to interest rate risk.

## Events after the statement of financial position date

Russia's invasion of Ukraine on 24 February 2022 has triggered disruptions and uncertainties in the markets and the global economy. The EU, UK and the U.S., in a coordinated effort joined by several other countries, imposed sanctions against Russia, Belarus, certain regions of Ukraine and certain Russian entities and nationals. The Bank is carefully monitoring the developments and is taking measures to comply with all applicable laws, including sanctions and export controls as they evolve.

Although the Bank has no direct exposure and very limited indirect exposure to the region, the invasion of Russia to Ukraine could result in prolonged/elevated geopolitical instability, trade restrictions, disruptions to global supply chains, increases in energy prices with flow-on global inflationary impacts, and a potential negative impact in the domestic, regional and global economy. The potential impacts from the Russian invasion of Ukraine remain uncertain, including but not limited to, economic conditions, asset valuations, interest rate expectations and exchange rates.

The Bank will continue to closely monitor the related effects on its financial position, including estimated direct and indirect impacts on the expected credit loss calculations and on the fair value measurement of assets, liabilities and off-balance sheet exposures as well as the impact on its financial performance.

For more details on the events after the statement of financial position date refer to Note 37 of the financial statements.

## Independent auditors

On 28 September 2021 in an extraordinary general meeting, the shareholders of the Bank appointed PricewaterhouseCoopers Limited (PwC) as statutory auditors of the Bank for the accounting period commencing on 1 January 2021.

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors

Myria Agapiou
Secretary

29 April 2022

# Statement of Profit or Loss and Other Comprehensive Income
### for the year ended 31 December 2021

| | Note | 2021<br>€ | As restated<br>2020<br>€ |
|---|---|---|---|
| Interest income calculated using the effective interest rate method | *4* | **7.883.181** | 5.611.367 |
| Interest expense calculated using the effective interest rate method | *5* | **(392.495)** | (541.404) |
| **Net interest income** | | **7.490.686** | 5.069.963 |
| Fee and commission income | *6* | **1.620.538** | 1.334.202 |
| Fee and commission expense | *6* | **(245.208)** | (221.620) |
| **Net fee and commission income** | | **1.375.330** | 1.112.582 |
| Net foreign exchange gains / (losses) | | **18.261** | (11.190) |
| Loss on disposal of financial instruments | | **(800)** | - |
| Other operating income | | **16.845** | 39.707 |
| **Operating income** | | **8.900.322** | 6.211.062 |
| Reversal of impairment on freehold property | *19* | **73.925** | 81.714 |
| Staff costs | *7* | **(4.066.482)** | (3.540.661) |
| Depreciation of property and equipment | *19* | **(690.510)** | (712.170) |
| Amortisation of intangible assets | *20* | **(241.059)** | (212.664) |
| Other operating expenses | *8* | **(3.195.086)** | (2.857.923) |
| **Profit/(loss) before credit loss allowance** | | **781.110** | (1.030.642) |
| Decrease/(increase) in credit loss allowance | *9* | **216.716** | (715.353) |
| **Profit/(loss) before tax** | | **997.826** | (1.745.995) |
| Income tax | *10* | **(37)** | 162 |
| **Profit/(loss) for the year** | | **997.789** | (1.745.833) |
| **Other comprehensive loss:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Changes in the fair value of equity instruments designated at fair value through other comprehensive income | *27* | **(5.627)** | (6.480) |
| **Items that may be reclassified to profit or loss** | | | |
| Changes in the fair value of debt instruments at fair value through other comprehensive income | *27* | **1.652** | 4.882 |
| **Total other comprehensive loss for the year** | | **(3.975)** | (1.598) |
| **Total comprehensive income/(loss) for the year** | | **993.814** | (1.747.431) |

The notes on pages 12 to 100 are an integral part of these financial statements.

## Statement of Financial Position
**as at 31 December 2021**

| | Note | 2021 € | As restated 2020 € | As restated 1 January 2020 € |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with Central Bank | *11* | **86.440.907** | 46.889.442 | 24.054.654 |
| Placements with banks | *12* | **5.918.631** | 4.557.610 | 3.665.683 |
| Loans and advances to customers | *13* | **307.037.146** | 271.430.543 | 209.622.025 |
| Investments at fair value through other comprehensive income | *14* | **1.041.198** | 2.187.431 | 2.302.679 |
| Investments at amortised cost | *15* | **21.472.446** | 25.452.008 | 24.965.166 |
| Other assets | *18* | **3.364.564** | 3.236.812 | 2.866.253 |
| Property and equipment | *19* | **6.093.957** | 6.595.243 | 6.941.294 |
| Intangible assets | *20* | **1.071.522** | 779.442 | 691.296 |
| **Total assets** | | **432.440.371** | 361.128.531 | 275.109.050 |
| **LIABILITIES** | | | | |
| Customer deposits | *21* | **369.179.482** | 296.260.609 | 224.584.481 |
| Funding from central banks | *22* | **13.131.981** | 18.000.000 | 9.300.000 |
| Other borrowings | *23* | **6.990.642** | 8.124.749 | 9.275.340 |
| Lease liabilities | *24* | **784.492** | 989.645 | 1.106.651 |
| Provisions and other liabilities | *25* | **3.789.849** | 2.683.417 | 4.025.036 |
| **Total liabilities** | | **393.876.446** | 326.058.420 | 248.291.508 |
| **EQUITY** | | | | |
| Share capital | *26* | **126.000** | 121.000 | 101.000 |
| Share premium | *26* | **62.375.000** | 59.880.000 | 49.900.000 |
| Revaluation reserve for securities at FVOCI | *27* | **2.346** | 6.321 | 7.919 |
| Accumulated losses | *28* | **(23.939.421)** | (24.937.210) | (23.191.377) |
| **Total equity** | | **38.563.925** | 35.070.111 | 26.817.542 |
| **Total liabilities and equity** | | **432.440.371** | 361.128.531 | 275.109.050 |

On 29 April 2022, the Board of Directors of Ancoria Bank Limited authorised these financial statements for issue.

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

Alexandra Spyrou
Member of the Board ..........................................

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

Kyriacos Christodoulou
Acting Chief Financial Officer Christodoulou ..........................................

The notes on pages 12 to 100 are an integral part of these financial statements.

# Statement of Changes in Equity
**for the year ended 31 December 2021**

| | Share capital (Note 26) | Share premium (Note 26) | Revaluation reserve for securities at FVOCI (Note 27) | Accumulated losses (Note 28) | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **Balance at 1 January 2020 as previously reported** | 101.000 | 49.900.000 | 7.919 | (22.842.837) | 27.166.082 |
| Correction of prior period error | - | - | - | (348.540) | (348.540) |
| **Balance at 1 January 2020 as restated** | 101.000 | 49.900.000 | 7.919 | (23.191.377) | 26.817.542 |
| **Transactions with owners** | | | | | |
| Issue of ordinary shares, at a premium | 20.000 | 9.980.000 | - | - | 10.000.000 |
| **Comprehensive loss** | | | | | |
| Loss for the year as restated | - | - | - | (1.745.833) | (1.745.833) |
| Other comprehensive loss for the year | - | - | (1.598) | - | (1.598) |
| **Total comprehensive loss for the year as restated** | - | - | (1.598) | (1.745.833) | (1.747.431) |
| **Balance at 31 December 2020 as restated** | **121.000** | **59.880.000** | **6.321** | **(24.937.210)** | **35.070.111** |
| **Balance at 1 January 2021 as restated** | **121.000** | **59.880.000** | **6.321** | **(24.937.210)** | **35.070.111** |
| **Transactions with owners** | | | | | |
| Issue of ordinary shares, at a premium | **5.000** | **2.495.000** | **-** | **-** | **2.500.000** |
| **Comprehensive income** | | | | | |
| Profit for the year | **-** | **-** | **-** | **997.789** | **997.789** |
| Other comprehensive loss for the year | **-** | **-** | **(3.975)** | **-** | **(3.975)** |
| **Total comprehensive income for the year** | **-** | **-** | **(3.975)** | **997.789** | **993.814** |
| **Balance as at 31 December 2021** | **126.000** | **62.375.000** | **2.346** | **(23.939.421)** | **38.563.925** |

The notes on pages 12 to 100 are an integral part of these financial statements.

# Statement of Cash Flows
**for the year ended 31 December 2021**

| | *Note* | **2021** **€** | As restated 2020 € |
|---|---|---|---|
| **Net cash flow from operating activities** | *30* | **38.973.831** | 7.817.174 |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment | *19* | **(115.299)** | (278.405) |
| Purchases of intangible assets | *20* | **(533.139)** | (300.810) |
| Purchases of investments at fair value through other comprehensive income | | **(53.235)** | - |
| Proceeds on redemption of investments at fair value through other comprehensive income | | **1.200.000** | 100.000 |
| Purchases of investments at amortised cost | | **(8.007.015)** | (12.498.259) |
| Proceeds on redemption of investments at amortised cost | | **11.850.000** | 11.673.000 |
| Interest received from debt securities | | **347.331** | 387.966 |
| **Net cash flows generated from/(used in) investing activities** | | **4.688.643** | (916.508) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of ordinary shares | *26* | **2.500.000** | 10.000.000 |
| (Repayments)/ proceeds of funding from central banks | *22* | **(4.650.000)** | 8.700.000 |
| Interest received from funding from central banks | | **71.042** | - |
| Principal elements of lease liabilities | *24* | **(205.153)** | (184.063) |
| Interest elements on lease liabilities | *24* | **(25.847)** | (29.982) |
| Repayments of other borrowings | *23* | **(1.169.696)** | (1.202.736) |
| **Net cash flows (used in)/generated from financing activities** | | **(3.479.654)** | 17.283.219 |
| **Net increase in cash and cash equivalents** | | **40.182.820** | 24.183.885 |
| **Cash and cash equivalents** | | | |
| At 1 January | | **48.585.916** | 24.402.031 |
| Net increase in cash and cash equivalents | | **40.182.820** | 24.183.885 |
| At 31 December | *31* | **88.768.736** | 48.585.916 |

There were no significant non-cash transactions during the years 2021 and 2020.

The notes on pages 12 to 100 are an integral part of these financial statements.

## 1. General information

### 1.1. Corporate information

Ancoria Bank Limited (the 'Company' or the 'Bank'), was incorporated in Cyprus on 20 August 2013 as a limited liability company under the Cyprus Companies Law, Cap.113 and commenced operations in 2015, as a licensed credit instituion by the Central Bank of Cyprus ('CBC'). Its registered office is at 12 Demostheni Severi, 1st floor, 1080 Nicosia, Cyprus.

The Company is a limited liability company under the Cyprus Companies Law.

The financial statements of the Bank for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 29 April 2022.

The Company is a wholly owned subsidiary of Ancoria Investments Plc which is registered in Cyprus, and which prepares consolidated financial statements including the results, position and cash flows of the Company. The consolidated financial statements are available at the registered office of the Bank.

The Bank has three branches in Cyprus.

### 1.2. Principal activity

The principal activity of the Company, which remains unchanged from prior year, involves the provision of banking services in Cyprus on the basis of the license granted by CBC.

## 2. Summary of 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 comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

As of the date of the authorisation of the financial statements, all IFRS issued by the International Accounting Standards Board (IASB) that are relevant to the operations of the Bank and are effective as of 1 January 2021 have been adopted by the EU through the endorsement procedure established by the European Commission.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation at fair value of financial instruments at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"), and land and freehold property held for own use.

The financial statements are presented in Euro (€) which is the Bank's functional and presentation currency.

## 2. Significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding the expected recovery or settlement of any asset and liability within twelve months after the reporting date and more than twelve months after the reporting date is presented in Note 29.

*Going concern*

The Bank's financial statements have been prepared on a going concern basis following the assessment performed by the Board of Directors and Management on the Bank's ability to continue as a going concern for a period of at least twelve months from the date of approval and issuance of these financial statements.

In making this assessment, the Board of Directors has considered a wide range of information relating to present and future conditions, including projections of profitability, cash flows, capital requirements and capital resources, taking also into consideration, the Bank's Business Plan approved by the Board in April 2022 (the 'Business Plan') and the operating environment (as set out in Section 'Operating Environment' in the Management Report and Note 35). The Board of Directors has also considered relevant sensitivity scenarios in its projection to cater for downside risk and has used conservative economic inputs to develop its medium term strategy. The Bank is working towards materialising its Business Plan.

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

- **Capital adequacy**

  The Bank's total capital ratio at 31 December 2021 was at 18,04%, whilst the Total Capital Ratio requirement including SREP was 15% without Pillar 2 Capital Guidance and 15,5% with Pillar 2 Capital Guidance. As part of its assessment the Board of Directors has considered forecasted capital adequacy of the Bank together with sources to satisfy possible capital needs. Over the years the Bank has successfully managed to secure the required capital in order to meet the capital requirements and finance its expansion strategy.

- **Liquidity**

  In 2021, the Bank increased its customer deposits by €73 million at reduced interest rates and maintains liquidity levels well above the regulatory requirements. The Bank is also participating in the Targeted Longer-Term Refinancing Operations ('TLTRO III') for funding from the European Central Bank under the Eurosystem monetary policy operations whilst maintaining adequate eligible investments which allow further withdrawals through these ECB refinancing operations if deemed necessary.

- **Cyprus Economy and Banking Environment**

  As a result of the pandemic, the market environment within which the Bank operates has continued to evolve in 2021. Throughout 2021, measures adopted to contain the COVID-19 pandemic, included certain business closures, social restrictions and social distancing, which have had an impact on the current financial and operational performance of the Bank. However, the economic performance and outlook has continued to improve with the lifting of economic restrictions in 2021. The low interest rate environment combined with excess liquidity continues to impact the profitability of the overall banking sector having an impact on the Bank's net interest income. The Bank assessed the financial impacts of the economic environment through the Bank's latest business planning process and believes it is reasonably well positioned to withstand any volatility from a possible resurgence of the COVID-19 pandemic or other economic events.

  Russia's invasion of Ukraine on 24 February 2022 has triggered disruptions and uncertainties in the markets and the global economy. The EU, UK and the U.S., in a coordinated effort joined by several other countries, imposed sanctions against Russia, Belarus and certain regions of Ukraine and certain Russian entities and nationals. The Bank is carefully monitoring the developments and is taking measures to comply with all applicable laws, including sanctions and export controls as they evolve.

## 2. Significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

*Going concern (continued)*

- **Cyprus Economy and Banking Environment (continued)**

  Although the Bank has no direct exposure and very limited indirect exposure to the region, the invasion of Russia to Ukraine could result in prolonged/elevated geopolitical instability, trade restrictions, disruptions to global supply chains, increases in energy prices with flow-on global inflationary impacts, and a potential negative impact in the domestic, regional and global economy. The potential impacts from the Russian invasion of Ukraine remain uncertain, including but not limited to, economic conditions, elevated credit risk, asset valuations, interest rate expectations and exchange rates. Specifcally for Cyprus Economy, although Tourism and Services sectors are the ones expected to be particularly impacted, the chain impact of the effects described above is expected to be felt in all sectors of the economy.

The management of the Bank is closely monitoring the developments and is adjusting its actions and strategy as the situation is evolving.

The Directors have made the assessment on the Bank’s ability to continue as a going concern for a period of at least twelve months from the date of approval of these financial statements and concluded that there is no material uncertainty which would cast significant doubt over the ability of the Bank to continue to operate as a going concern for a period of twelve months from the date of approval of these financial statements.

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 income 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

### 2.2 Adoption of new and revised IFRSs

During 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 2021. The adoption of these new and revised standards and interpretations did not have a material effect on the accounting policies of the Bank.

## 2. Significant accounting policies (continued)

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

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. These are listed below:

a) Adopted by the EU

| Standard / Interpretation | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IAS 16 - *Proceeds Before Intended Use* | 1 January 2022 |
| Amendments to IFRS 3 - *Reference to the Conceptual Framework* | 1 January 2022 |
| Amendments to IAS 37- *Cost of Fulfilling a Contract* | 1 January 2022 |
| Annual improvements to IFRS Standards 2018-2020 Cycle | 1 January 2022 |
| Amendments to IAS 8 - *Definition of Accounting Estimates* | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2 - *Disclosure of Accounting Policies* | 1 January 2023 |

b) Not yet adopted by the EU

| Standard / Interpretation | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current* | 1 January 2023 |
| Amendments to IAS 12 - *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* | 1 January 2023 |

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 as of the date of issue of these financial statements the impact of the amendments is not known. The Bank does not intend to early adopt any of them.

**2. Significant accounting policies (continued)**

**2.4 Revenue recognition**

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

**2.4.1 Interest income and interest expense**

*Interest income*

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

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount and the maturity amount and, for financial assets adjusted for any loss allowance.

The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, to the gross carrying amount of the financial asset or the amortised cost of the financial liability. 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,all premiums or discounts and fees and points paid or received that are integral to the EIR rate, such as origination fees.

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 (or 'Stage 3'). 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 (i.e. net of the expected credit loss provision).

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the EIR, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Interest income from financial assets at amortised cost and financial assets at FVOCI is presented as part of 'interest income calculated using the effective interest rate method' within the statement of profit or loss and other comprehensive income.

Interest earned on liabilitites such as ECB refinancing operations (TLTRO) is also presented as part of 'interest income calculated using the effective interest rate method'.

*Interest expense*

Interest expense is recognised in the statement of profit or loss and other comprehensive income by applying the EIR method.

Interest expense on financial liabilities at amortised cost is presented within 'Interest expense calculated using the effective interest rate method'.

The Bank holds cash and placements with banks and central banks carrying negative interest rates. The Bank discloses interest charged on these assets under 'Interest expense calculated using the effective interest rate method' line.

**2.4.2 Fee and commission income and expense**

*Fee and commission income*

The Bank earns fee and commission income from a range of services it provides to its clients including debit cards, trade finance products, transfers of money and other banking services as well as through insurance intermediation activities.

**2. Significant accounting policies (continued)**

**2.4 Revenue recognition (continued)**

**2.4.2 Fee and commission income and expense (continued)**

*Fee and commission income (continued)*

Fees and commissions in respect of loans and advances to customers are recognised using the EIR method as part of interest income as explained above.

In general, fee income can be divided into two broad categories:

(i) fees earned from services that are provided over a certain period of time, and

(ii) fees earned from point in time services.

(i) Over time services

Fees earned from services such as account maintenance fees, insurance commissions and financial guarantees that are provided over a certain period of time are recognised pro-rata over the service period on a straight line basis as the services are rendered when the customer simultaneously receives and consumes the benefits provided by the Bank's performance provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of the Bank.

(ii) Point in time services

Fees earned from providing transaction-type services such as money transfer fees and commissions, card interchange fees and cheque returned fees 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.

*Fee and commission expense*

Fee and commission expense is generally recognised in the year when the service has been provided to the Bank. Fee and commission expense relates to cards, foreign correspondents and other service charges plus sundry fee and commission expenses incurred.

**2.4.3 Dividend income**

Dividend income is recognised in the profit or loss when the Bank's 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 operating income' line.

## 2. Significant accounting policies (continued)

### 2.5 Foreign currency translation

**i) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates.The functional and presentation currency of the Bank is the Euro (€).

**ii) Transactions and balances**

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, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

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

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

- equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income.

### 2.6 Employee benefits

The Bank and its employees contribute to the Cyprus Government Social Insurance Fund and to the General Healthcare System based on the employees' salaries in accordance with prevailing legal requirements. 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 employees' gross salary and employee contributions within a range of 4%-10% of their gross salary. The Bank's contributions are expensed when due and are included in staff costs. 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 with significant influence over 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 Current and deferred income 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 interest and dividends.

## 2. Significant accounting policies (continued)

### 2.7 Current and deferred income tax (continued)

Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor tax profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Bank and where there is an intention to settle the balances on a net basis.

No deferred tax arises on leases as the asset and the liability are considered separately. The temporary difference on each item (the difference between the carrying amount and a tax base of nil) does not give rise to deferred tax, since the initial recognition exception (IRE) applies.

The Bank’s uncertain tax positions are reassessed by management at every statement of financial position date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretations of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the balance sheet date.

Direct tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. While there are risks that these tax positions and interpretations taken by the Bank could be potentially challenged by the tax authorities, the Bank currently estimates that they can be sustained.

<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.

## 2. Significant accounting policies (continued)

### 2.7 Current and deferred income tax (continued)

Special Tax Levy

The special levy on credit institutions in Cyprus is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0.0375% per quarter. 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.

### 2.8 Financial instruments

#### 2.8.1 Initial recognition and measurement

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

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

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an expected credit loss (‘ECL’) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

#### 2.8.1 Initial recognition and measurement (continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recorded at settlement date, which is the date on which the asset is delivered to the Bank. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument. Specifically, "Cash and balances with Central Bank", "Placements with banks", "Loans and advances to customers", "Other assets", "Funding from central banks", "Other borrowings" and "Customer deposits" are recognised when cash is received by the Bank or advanced to the counterparties/borrowers. Any change in the fair value of the assets classified as financial assets at fair value through profit or loss or at other comprehensive income to be received during the period between the trade date and the settlement date is recognised in profit or loss and in OCI, respectively. However changes in the fair value of assets carried at amortised cost between trade date and settlement date are not recognised.

#### 2.8.2 Classification and subsequent measurement of financial assets and liabilities

***Financial assets***

*Measurement categories*

The Bank classifies its financial assets at amortised cost ('AC'), fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL'). The classification and subsequent measurement of debt financial assets depends on: i) the Bank's business model for managing the related assets portfolio and ii) the cash flow characteristics of the asset ('SPPI').

*Business model assessment*

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows") or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

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.

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.

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

### 2.8.2 Classification and subsequent measurement of financial assets and liabilities (continued)

*Cash flow characteristics and assessment whether contractual cash flows are SPPI*

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument upon initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

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

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

*Reclassifications and changes in the business model*

Financial instruments are only reclassified when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets. The Bank does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

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

**2. Significant accounting policies (continued)**

**2.8 Financial instruments (continued)**

**2.8.2 Classification and subsequent measurement of financial assets and liabilities (continued)**

*Financial assets measured at amortised cost (AC)*

Amortised cost is calculated by taking into account any fees that are an integral part of the effective interest rate as explained in the accounting policy 'Interest Income'. The amortisation is included under 'Interest income calculated using the effective interest rate method' line and any losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income under 'Decrease/(increase) in credit loss allowance' line.

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

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

These financial assets are measured at amortised cost using the EIR method less allowances for expected credit losses which are recognised in profit or loss under 'Decrease/(increase) in credit loss allowance' line. The Bank's financial assets measured at AC consist of: cash and balances with Central Bank, placements with banks, loans and advances to customers, investments at amortised cost and other assets.

*Financial assets measured at FVOCI*

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 assets 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. 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.

**2. Significant accounting policies (continued)**

**2.8 Financial instruments (continued)**

**2.8.2 Classification and subsequent measurement of financial assets and liabilities (continued)**

*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.

*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<br>▪ Interest income and dividend income<br>▪ Gains or losses on re-measurement to fair value and gains or losses on disposal |
| Financial assets at amortised cost | Amortised cost using EIR method (reduced by impairment losses) | Profit or loss<br>▪ Interest income, foreign exchange gains or losses and impairment losses<br>▪ Gains or losses on derecognition |
| Debt investments at FVOCI | Fair value | Profit or loss<br>▪ Interest income, foreign exchange gains or losses and impairment losses<br>▪ Gains or losses on derecognition, including transfers from revaluation reserve<br>Other comprehensive income<br>▪ Gains or losses on re-measurement to fair value |
| Equity investments at FVOCI | Fair value | Profit or loss<br>▪ Dividend income, unless such represents recovery of part of cost of investment<br>Other comprehensive income<br>▪ Gains or losses on re-measurement to fair value<br>Retained earnings<br>▪ Gains or losses on derecognition (not recycled to profit or loss) |

## 2. Significant accounting policies (continued)

## 2.8 Financial instruments (continued)

### 2.8.2 Classification and subsequent measurement of financial assets and liabilities (continued)

***Financial liabilities***

*Classification and measurement*

Financial liabilities refer mainly to customer deposits, other borrowings and funding from central banks. Financial liabilities are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties, and initially measured at fair value, which is net of directly attributable transaction costs incurred. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities) and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments. The corresponding interest expense is recognised in the statement of profit or loss under 'Interest expense calculated usign the effetive interest rate method' line.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the statement of profit or loss.

### 2.8.3 Derecognition of financial assets and liabilities

*Derecognition of financial assets*

The basic premise for the derecognition model in IFRS 9, 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.

**2. Significant accounting policies (continued)**

**2.8 Financial instruments (continued)**

**2.8.3 Derecognition of financial assets and liabilities (continued)**

*Derecognition of financial assets (continued)*

Gain and losses arising on derecognition of financial instruments at amortised cost are recognised on the face of the statement of profit or loss.

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

*Forborne and modified financial assets*

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximise recovery. 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 the modified terms are substantially different from the original contractual terms thus resulting 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. If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value, using a new effective interest rate. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a significant increase in credit risk has occurred.

In the case where the financial asset is derecognised, its credit loss allowance 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 credit 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.

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. In such cases, the financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment.

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

#### 2.8.3 Derecognition of Financial assets and liabilities (continued)

*Forborne and modified financial assets (continued)*

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 the statement of 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.

#### 2.8.4 Impairment of financial assets

The Bank uses a forward looking expected credit losses ('ECL') model, requiring judgement, estimates and assumptions in determining the level of ECL.

The ECL model applies to the following financial instruments that are not measured at FVTPL and the Bank assesses at each reporting date the ECL on:

- Bank balances with Central Bank;
- Placements with banks;
- Loans and advances to customers;
- Debt investments that are measured at amortised cost or FVOCI;
- Other assets;
- Letters of credit;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Equity instruments are not subject to impairment assessment.

The Bank's ECL model accounts for the following main parameters: probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and Discount Rate. In accordance with IFRS 9 the Bank applies the three stage approach for impairment, based on changes in credit quality since initial recognition.

ECL measurement reflects an unbiased and probability weighted amount determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**2. Significant accounting policies (continued)**

**2.8 Financial instruments (continued)**

**2.8.4 Impairment of financial assets (continued)**

The Bank categorises its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

Stage 1: Financial assets which have not had a significant increase in credit risk since initial recognition are considered to be Stage 1 and 12-month ECL or until contractual maturity, if shorter is recognised.

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised up until contractual maturity but considering expected prepayments, if any.

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Bank defines credit-impaired and default) and lifetime losses are recognised.

POCI: Purchased or originated credit impaired ("POCI") 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. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition.

At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), unless assets are deemed as POCI. In the event of a significant increase in credit risk since initial recognition, impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

Loans and advances to customers, debt and other financial instruments measured at AC are presented in the statement of financial position net of the ECL allowance. ECL is recognised in profit or loss. For debt instruments measured at fair value through other comprehensive income (OCI) changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI. For financial guarantees and loan commitments a separate provision for ECL is recognised as a liability in the statement of financial position within 'Provisions and other liabilities', except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Bank cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. Up until 2020, the Bank was recognising the loss allowance separately and not together with the loss allowance on the relevant on-balance sheet exposure. The change was made in 2021 as part of the ECL methodology changes and did not have a significant impact compared to the prior period. ECL for the year is recognised within the statement of profit or loss in 'Decrease/(increase) in credit loss allowance'.

For off-balance sheet exposures, 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 ECL.

The Bank calculates 12-month ECL and lifetime ECL either on an individual basis or collective basis.

*Individually assessed loans*
The individual assessment is performed for individually significant stage 3 assets. A risk based approach is used on the selection criteria of the individually assessed population such as NPE or forborne NPE exposures above a certain amount. The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (i.e. the realisable value of the collateral and the operating cash flows of the customer).

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

#### 2.8.4 Impairment of financial assets (continued)

*Collectively assessed loans*
All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/ segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type and customer credit rating.

*Significant increase in credit risk for loans and advances to customers*

The Bank uses certain criteria to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The criteria for determining whether credit risk has increased significantly include delinquency and forbearance measures and are in line with Stage 2 criteria as follows:

- Days in Arrears: Exposures with more than 30 days in material arrears
- Days in Arrears: Exposures with more than 30 days in material arrears at any point in time during the past 3 months
- Forbearance flag: As of the reference date, the facility has been forborne performing for less than 12 months
- Facilities with current internal credit rating equal or above 6 and with 2 or more notches of deterioration from the initial credit rating at the inception of the loan
- Facilities that belong to a counterparty that has other facilities that:
  - either meet any of the conditions 1-4 above or Stage 3, and
  - any one of them has exposure greater than 20% of the total counterparty exposure

Material arrears are considered to be €100 for retail clients and €500 for corporate clients.

*Significant credit risk increase for financial instruments other than loans and advances to customers*

The low credit risk simplification is adopted for debt security instruments at FVOCI and at amortised cost, placements with banks and balances with central banks with external credit ratings that are rated as investment grade. For debt security instruments and balances with central banks and placements with other banks with external credit ratings that are rated as investment grade, the assessment of low credit risk is based on the external credit rating. For debt securities and balances with central banks and placements with other banks which are below investment grade, the low credit risk simplification does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date. Significant deterioration in credit risk is considered to have occurred when the rating of the exposures drops by one notch and their current rating does not fall within the investment grade category.

All financial assets are transferred out of Stage 2 into Stage 1, if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above.

*Credit impaired and definition of default*

The Bank considers loans and advances to customers that meet the non-performing exposure (NPE) definition as per the European Banking Authority (EBA) standards to be in default and hence Stage 3 (credit-impaired). Therefore such loans are considered to be in default for credit risk management purposes and have ECL calculated on a lifetime basis.

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

#### 2.8.4 Impairment of financial assets (continued)

*Credit impaired and definition of default (Continued)*

As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:

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

When a specific part of the exposures of a customer group that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.

Non performing forborne exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, only when all of the following conditions are met:

- The extension of forbearance measures does not lead to the recognition of impairment or default.
- One year has passed since the forbearance measures were extended. In case of grace period loans, the exposure can exit the NPE status one year after the end of the grace period.
- Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
- No unlikely-to-pay criteria exist for the debtor.
- The debtor has made post-forbearance payments of a not-insignificant amount of capital.

At the time an account ceases to be considered as NPE and retains a performing status for a consecutive period of three months it exits Stage 3. The reversal of previous unrecognised interest on loans and advances to customers that no longer meet Stage 3 criteria is presented in 'Decrease/(increase) in credit loss allowance'.

Debt securities, placements with other banks and balances with central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal.

*New default definition effective from 1 January 2021*
As of 1 January 2021, the Bank has implemented the new default definition under Article 178 of the Capital Requirements Directive as per the new EBA Guidelines (EBA/GL/2016/07) and the Regulatory Technical Standards on the materiality threshold for past due credit obligations (EBA/RTS/2016/06).

**2. Significant accounting policies (continued)**

**2.8 Financial instruments (continued)**

**2.8.4 Impairment of financial assets (continued)**

*Credit impaired and definition of default (Continued)*

Based on the new EBA guidelines the following apply:

- A new counter for the days past due “DPD” based on new regulatory materiality thresholds is introduced whenever these thresholds are breached for more than 90 consecutive days. The counter stops counting days past due only when the arrears/excesses are reduced below the materiality thresholds.
- If a material forgiveness or postponement of principal, interest or fees results in a diminished financial obligation that exceeds the materiality threshold as defined in the relevant EBA/GL/2016/07 then the “Unlikeliness to Pay” criterion is triggered regardless of the days past due, resulting in a non-performing forborne classification.
- All non-performing exposures are subject to a 3 month probation period whereby, no default entry criteria are met. Once the probation period ends, exposures are re-classified to performing with the exception of non-performing forborne that continue to undergo a 12 month probation period.

*Scenarios and forward-looking inputs*

The Bank uses reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated for three macroeconomic scenarios, baseline, pessimistic and optimistic and the output is the weighted average ECL based on the assigned probability of each scenario. The Bank calculates lifetime ECLs and 12-month ECLs either on an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Forward looking information embedded in the PDs relates to GDP growth for a 3-year period. After the adjustment on the first 3 years it is assumed that the point in time PDs return to the through-the-cycle PD curve over a period of another 3 years by assuming that the economy will behave similar to economic cycle experience during the sample period the through-the-cycle PDs were constructed. To account for changes in real estate values since the date of latest available valuations, the Bank applies adjustments to the market value based on the history of the corresponding CBC property price indices for residential and commercial properties. A forward-looking index is used as a multiplier applied to capture changes in the market value of real estate collateral from the point default until the point of liquidation. The forward-looking index for residential and commercial properties applied by the Bank is based on the 3-year property price index projections provided by CBC. The long-term projection for all properties is based on the future inflation rate expectations.

This process involves consideration of external actual and forecast information provided by the Central Bank of Cyprus, CyStat, ECB and other providers of macroeconomic forecasts. Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date.

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

#### 2.8.4 Impairment of financial assets (continued)

*Inputs into measurement of ECLs*

The key inputs into the measurement of ECLs are the term structures of the following variables:

(i) Probability of default (PD);
(ii) Loss given default (LGD); and
(iii) Exposure at default (EAD).

These parameters are derived from statistical models and other historical data and are adjusted to reflect forward-looking information.

(i) Probability of default (PD)

PD represents the probability an exposure has to default and is calculated based on statistical models using a combination of Division, customer type and taking into consideration the Bank's historical default rates and forward looking information based on macroeconomic inputs. For the purposes of the PD estimation the Bank uses the EBA definition of NPE as its definition of default. As a result the Bank has applied a methodology that suits the Bank's portfolio, complexity and data availability.

The Bank's IFRS 9 PD estimation approach consists of the following key steps:

- Use historic default rates to estimate the through the cycle (TTC) probabilities of default;
- Establish a model linking the default rates to macroeconomic variables thus, mapping external market dynamics onto Bank's internal credit risk parameters i.e. to fit a distribution function to the observed cumulative default rates using a transformation of the Weibull distribution;
- Obtain the point in time (PIT) PDs by adjusting the Through the Cycle (TTC) conditional PD profile from step 1 using the forecasted default rate established in step 2 for years 1-3 and forecasted for the default rates based on appropriate long term assumptions with regards to economic activity.

(ii) Loss given default (LGD)

LGD represents an estimate of the loss if default occurs at a given time. It is usually expressed as a percentage of the EAD. It takes into account parameters such as the collateral value which is discounted to the present value determining the amount of the expected shortfall.

The structure of the LGD model considers:

- Curing where the probability of cure model was derived based on historical observations.
- Non-curing including realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

(iii) Exposure at default (EAD)

EAD represents the expected exposure in the event of a default during the life of a financial instrument. EAD methodology is differentiated in the following categories: revolving, non-revolving, off-balance sheet and credit impaired exposures. In case of revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. For non-revolving exposures the term is based on the contractual term of the exposure and are amortised in accordance with the principal contractual payment schedule of each facility. The credit conversion factor model as derived based on and in accordance with CRR / CRD IV classification is applied to determine exposure at default for the off-balance sheet amounts when estimating ECLs. With regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date. ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

## 2. Significant accounting policies (continued)

### 2.8 Financial instruments (continued)

#### 2.8.4 Impairment of financial assets (continued)

*ECL measurement period*
The period for which lifetime losses are determined is based on the contractual life of a financial instrument. For revolving loans, the period for which lifetime losses are determined is set at 12 months representing the next review date of the facility, at which the Bank has the right to limit or to cancel the exposure. For non-revolving exposures the expected lifetime is the period from the reporting date to the termination date of the facility. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

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.

*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.

#### 2.8.5 Write-off
Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Due to the relatively small number of incidents, the Bank assesses the need for write-off on a case by case basis. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, but for which there is no reasonable expectation of recovery.

#### 2.8.6 Offsetting 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

### 2.9 Loans and advances to customers

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) loans and advances at AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL and (ii) loans and advances at FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models.

**2. Significant accounting policies (continued)**

**2.10 Cash and cash equivalents**

For the purposes of statement of cash flows, cash and cash equivalents include notes and coins on hand, non-obligatory balances held with central banks in course of collection 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 because they are held for collection of contractual cash flows and those cash flows represent SPPI and thus are not designated at FVTPL.

In the statement of cash flows, cash flow changes related to investments at amortised cost and investments at FVOCI are included as part of investing activities whereas changes in the cash flows arising from other borrowings and funding from central banks are included as part of financing activities.

**2.11 Mandatory cash balances with central banks**

Mandatory cash balances with the central banks are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

**2.12 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. Valuations are carried out periodically between 3 to 5 years, depending on the property market conditions, by independent qualified valuators to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase other reserves in shareholders' equity.

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised other reserves in equity; all other decreases are charged to profit or loss for the year. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The depreciation after the date of the revaluation is calculated on the basis of the revalued carrying value of this asset. Gains on revaluation that reverse a revaluation decrease (impairment) on the same asset previously recognised as an expense, are first credited to the profit or loss within "Reversal of impairment on freehold properties" to the extent that the gains reverse a loss previously recognised in the profit or loss.

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 (33 years, thus 3% depreciation charge per year). The useful economic life of each such property is determined separately according to its nature and expectations and is used for depreciation purposes. 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.

*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 (i.e. for the period of shorter of useful life and lease term). Residual value is assumed to be nil.

## 2. Significant accounting policies (continued)

### 2.12 Property and equipment (continued)

*Furniture and fittings*

Furniture and fittings are measured at cost less accumulated depreciation and impairment. 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 less impairment. 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).

*Repairs and maintenance*

Expenditure for repairs and maintenance of property and equipment is charged to the profit or loss of the year in which it was incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the items can be measured reliably.

*Useful lives*

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each statement of financial position date.

*Disposals of property and equipment*

Gains and losses on disposal of property and equipment are determined by comparing proceeds with carrying amount and these are included in "Other operating expenses" in the statement of profit or loss.

*Impairment*

Impairment considerations with respect to property and equipment, including right-of-use assets, are presented in Note 2.14.

### 2.13 Intangible assets

Intangible assets consist of computer software and licences relating to usage of such software as well as assets under development.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. For intangible assets under development, the amortisation charge is only applied upon the completion of the assets and their availability to use.

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

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

Intangible assets are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount, then the intangible assets are written down to their recoverable amount.

**2. Significant accounting policies (continued)**

**2.13 Intangible assets (continued)**

*Internally-generated intangible assets*

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

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

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

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

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

**2.14 Impairment of non-financial assets**

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units - CGUs). An impairment loss is recognised in statement of profit or loss if the carrying amount of an asset or CGU exceeds its recoverable amount. Non-financial assets that have suffered an impairment in the past are reviewed for possible reversal of the impairment at each reporting date.

**2.15 Leases**

The Bank accounts for leases in accordance with IFRS 16.

The Bank leases office premises mainly.

At inception, the Bank assesses whether a contract is or contains a lease component. 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 and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

## 2. Significant accounting policies (continued)

### 2.15 Leases (continued)

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

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. In determining the lease term, the management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

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

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

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

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

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

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

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

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

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

**2. Significant accounting policies (continued)**

**2.16 Provisions**

Provisions are recognised when:

- there is a present obligation (legal or constructive) arising from past events,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate of the amount of the obligation can be made.

Provisions are not recognised for future operating losses.

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. The increase in the provision due to passage of time is recognised as interest expense.

**2.17 Financial guarantees and loan commitments**

The Bank issues letters of credit and letters of guarantee as part of its normal operations. 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 and commitments to provide a loan are initially recognized at fair value, which is normally evidenced by the amount of fees received without the recognition of a separate receivable for future premiums not yet due and presented on the statement of financial position under 'Provisions and other liabilities'. Subsequently, the Bank's liability under each guarantee is measured at the higher of:

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

b) The amount of ECL allowance.

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the amount of the loss allowance determined based on the expected credit loss model.

ECL allowances resulting from financial guarantees are recorded in profit or loss under 'Decrease/ (increase) in credit loss allowance' line. The balance of the liability for financial guarantees that remains is recognised under 'Fee and commission income' line in profit or loss when the guarantee is fulfilled, cancelled or expired.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment the Bank is required to provide a loan with pre-specified terms to the customer.

Corresponding ECL on undrawn loan commitments is presented together with the loss allowance of the relevant on balance-sheet exposure as the Bank cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. In the case of letters of credit ECL allowances are presented under 'Provisions and other liabilities' on the statement of financial position. ECL charge relating to these other loan commitments is also recorded in 'Decrease/ (increase) in credit loss allowance' in the consolidated income statement. Up until 2020, the Bank was recognising the loss allowance separately and not together with the loss allowance on the relevant on-balance sheet exposure. The change was made in 2021 as part of the ECL methodology changes and did not have a significant impact compared to the prior period.

**2.18 Other financial and non-financial assets and liabilities**

Other financial receivables and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Other non-financial assets are measured at cost less impairment. Other financial assets are carried at AC as they are held for the purpose of collecting contractual cash flows and those cash flows represent SPPI.

## 2. Significant accounting policies (continued)

### 2.19 Other financial liabilities

Other financial liabilities which include ‘Funding from central banks’ and ‘Other borrowings’ are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost.

### 2.20 Customer deposits

Customer deposits are non-derivative liabilities to individuals or corporate customers which are initially recognised at fair value net of transaction costs and are subsequently carried at amortised cost.

### 2.21 Share capital and share premium

Ordinary shares are classified as equity. 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*.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes subject to the provisions of the Cyprus Companies Law on reduction of share capital.

### 2.22 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.

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. Significant accounting policies (continued)

### 2.23 Comparatives

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

***a) Effect of prior year adjustment***

The comparative financial information has been restated as per the provisions of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' due to the fact that the fair value of the owner-occupied property which is carried in the statement of financial position at fair value based on the accounting policy chosen as per the provisions of IAS 16 'Property, Plant and Equipment' was overstated as of 1 January 2020 and 31 December 2020. Until 2020 the Bank was adopting the valuations performed by independent valuers however in 2021 in view of the limited availability of comparable market transactions, the Bank engaged 2 separate valuers to carry out the valuation of its property in Limassol and based on the valuations concluded that the valuation of the property should be revised downwards from 31 December 2019 (and thus the balances as of 1 January 2020 have been restated) to reflect more appropriately the fair value of the property.

The effect of the prior year restatements on the statement of financial position is analysed below:

| | 1 January 2020 | | |
|---|---|---|---|
| | **As previously stated** | **Restatement** | **As restated** |
| | **€** | **€** | **€** |
| **Assets** | | | |
| Property and equipment | 7.289.834 | (348.540) | 6.941.294 |
| Total assets | 275.457.590 | (348.540) | 275.109.050 |
| | | | |
| **Equity** | | | |
| Accumulated losses | (22.842.837) | (348.540) | (23.191.377) |
| Total equity | 27.166.082 | (348.540) | 26.817.542 |

The effect of the prior year restatements on the statement of financial position is analysed below:

| | 31 December 2020 | | |
|---|---|---|---|
| | **As previously stated** | **Restatement** | **As restated** |
| | **€** | **€** | **€** |
| **Assets** | | | |
| Property and equipment | 6.851.945 | (256.702) | 6.595.243 |
| Total assets | 361.385.233 | (256.702) | 361.128.531 |
| | | | |
| **Equity** | | | |
| Accumulated losses | (24.680.508) | (256.702) | (24.937.210) |
| Total equity | 35.326.813 | (256.702) | 35.070.111 |

## 2. Significant accounting policies (continued)

### 2.23 Comparatives (continued)

The effect of the prior year restatements on the statement of profit or loss is analysed below:

| | 2020 | | |
|---|---|---|---|
| | **As previously stated** | **Restatement** | **As restated** |
| | **€** | **€** | **€** |
| Depreciation of property and equipment | (722.294) | 10.124 | (712.170) |
| Reversal of impairment on freehold properties | - | 81.714 | 81.714 |
| Loss before credit loss allowance | (1.122.480) | 91.838 | (1.030.642) |
| Loss before tax | (1.837.833) | 91.838 | (1.745.995) |
| Loss for the year | (1.837.671) | 91.838 | (1.745.833) |
| Total comprehensive loss for the year | (1.839.269) | 91.838 | (1.747.431) |

The effect of the prior year restatements on the statement of changes in equity is analysed below:

| | 2020 | | |
|---|---|---|---|
| | **As previously stated** | **Restatement** | **As restated** |
| | **€** | **€** | **€** |
| **Accumulated losses** | | | |
| Balance at 1 January 2020 | (22.842.837) | (348.540) | (23.191.377) |
| Total equity | 27.166.082 | (348.540) | 26.817.542 |

The effect of the prior year restatements on the statement of changes in equity is analysed below:

| | 31 December 2020 | | |
|---|---|---|---|
| | **As previously stated** | **Restatement** | **As restated** |
| | **€** | **€** | **€** |
| **Accumulated losses** | | | |
| Balance at 31 December 2020 | (24.680.508) | (256.702) | (24.937.210) |
| Total equity | 35.326.813 | (256.702) | 35.070.111 |

***b) Effect of reclassifications***

The comparatives concerning year 2020 have been adjusted by certain reclassifications in the following aspects:

| **Statement of cash flows** | **Revised €** | **As previously reported €** |
|---|---|---|
| **Cash flows from financing activities** | | |
| *Repayments of other borrowings* | (1.202.736) | - |
| **Net cash flow from operating activities** | 7.817.174 | 6.614.438 |
| **Net cash flow from financing activities** | 17.283.219 | 18.485.955 |

The aforementioned reclassifications did not have any impact on the rest of the primary statements or notes to the financial statements of the Bank. The reclassifications have been performed to better reflect the repayments of other borrowings classified as financing activities.

## 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 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.

The calculation of ECLs requires management to apply significant judgement and make estimates and assumptions, involving significant uncertainty at the time these are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECLs to be recognised. The Bank's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies.

For individually assessed assets, whereby loss allowances are calculated on an individual basis, 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, or a proxy thereof, and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available, resulting in revisions to the loss allowance. Changes in these estimates would result in a change in the allowances and have a direct impact on the loss allowance charge.

In the last quarter of 2021, the Bank implemented a revision in its ECL methodology which is applied on loans and advances to customers, investments at amortised cost, investments at FVOCI and guarantees and commitments. This change was implemented as part of the Bank's continuous efforts to adjust and refine ECL models while its portfolio is growing both in value and number of accounts, and own loss experience data are developing. The revision of the ECL methodology has been applied in broadly all ECL parameters, namely PD calculation that are based on historical default rates of the Bank's portfolio among others, LGD calculation and EAD calculations whereby the a dynamic model is applied for the determination of EAD at each point in time going forward. Furthermore, staging assumptions have been altered in order to provide for more stability and less frequent transitions among stages and definition of default has been revised. The management of the Bank believes that the new model results in a more refined assessment of expected credit losses which is representative of its portfolio quality and risk appetite. The effect of the change in the ECL calculation as a result of the methodology was accounted for as a change in accounting estimate as per the provisions of IAS 8 and was recognized prospectively. The impact on the ECL amount based on the revised methodology was not significant compared to the previous methodology.

Elements of ECL models that are considered accounting judgements and estimates include:

*Significant credit risk increase for loans and advances to customers*
The Bank assesses whether significant increase in credit risk has occurred since initial recognition using staging criteria and qualitative information in certain cases. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated by the Bank's Management.

*Determination of probability of default (PD)*
Determining the PD includes estimates and the use of Management judgment in order to assess and adjust accordingly the historical information which determine the parameters and the measurement of ECL as at the reporting date.

## 3. Significant accounting estimates and judgments (continued)

### 3.1 Loss allowance on loans and advances to customers (continued)

*Scenarios and macroeconomic factors*
The Bank determines the ECL, which is a probability-weighted amount, by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Bank's management.

The Bank uses three different economic scenarios. For ECL calculation, both collectively and individually assessed provisions are the weighted average of three scenarios; base (50% weight), pessimistic (30% weight) and optimistic (20% weight).

Under all scenarios, liquidation expenses are assumed to be 5% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values. The corresponding haircuts for the pessimistic scenario are increased by 5% and for the optimistic scenario are decreased by 5%.

*Assessment of loss given default*
A factor for the estimation of LGD is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets. Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property prices.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario.

The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available property price indices by the CBC. In addition, a forward looking indexation is applied in the collateral prices for estimating the future open market value at the time of liquidation. For all real estate collaterals, the following haircuts were applied to the indexed open market values as at 31 December 2021:

| Real estate liquidation haircuts | Haircut range % |
|---|---|
| Land | 30-35 |
| Residential Real Estate | 25-30 |
| Commercial Real Estate | 20-25 |

The above average haircuts are applied by reference to the location of each collateral.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses on loans and advances.

*Modelling adjustments*
Forward looking models have been developed for ECL parameters (PD and LGD) for all portfolios sharing similar characteristics. Governance of these models lies with the Risk Management Function where a strong governance process is in place around the determination of the impairment measurement methodology including inputs, assumptions and overlays. Any management overlays are prepared by the Risk Management Function and endorsed by the Assets and Liabilities Committee. During the year ended 31 December 2021 there were no significant overlays applied by management.

## 3. Significant accounting estimates and judgments (continued)

### 3.1 Loss allowance on loans and advances to customers (continued)

ECL allowances also include off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated based on the relevant ECL model.

*Portfolio segmentation*
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed at least annually by the Bank's Assets and Liabilities Committee and are adjusted or enhanced, if deemed necessary.

In addition to individually assessed assets the Bank also assesses assets collectively. The collectively assessed portfolio includes all loans which are not individually assessed. The Bank categorises the exposures into sufficiently granular portfolio segments with shared risk characteristics such as the portfolio type (i.e. retail vs business) and by risk group (i.e. days past due and credit score risk band). The granularity is based on different levels of segmentation which, among other factors include customer type, and risk profile.

*Expected lifetime of revolving facilities*
Judgement is exercised on the measurement period of expected lifetime for revolving facilities. Management considers that the expected lifetime of revolving facilities is set by reference to their next review date at twelve months.

*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.

Sensitivity analysis
The Bank has performed sensitivity analysis relating to the total loans and advances to customers portfolio and guarantees and commitments portfolio.

The Bank has altered for the purpose of sensitivity analysis the below parameters and the impact on the ECL is presented in the table below:

| | | **Increase/(decrease) in ECL as at 31 December 2021 €** |
|---|---|---|
| **S1** | Increase the pessimistic weight by 5% and decrease the optimistic weight by 5% | 48.641 |
| **S2** | Decrease the pessimistic weight by 5% and increase the optimistic weight by 5% | (48.666) |
| **S3** | Increase in expected lifetime of revolving facilities assumption from 1 year to 5 years | 16.179 |
| **S4** | Additional 5% transfer from Stage 1 to Stage 2 account balances | 130.000 |
| **S5** | Increase the real estate collateral liquidation haircuts by 5% | 47.614 |
| **S6** | Decrease the real estate collateral liquidation haircuts by 5% | (32.355) |
| **S7** | Increase in the PDs of stages 1 and 2 by 20% | 77.730 |
| **S8** | Decrease in the PDs of stages 1 and 2 by 20% | (77.755) |

For S3 to S8 the sensitivity scenario was performed only on the baseline ECL scenario.

**3. Significant accounting estimates and judgments (continued)**

**3.2 Fair value of assets and liabilities (Note 2.22)**

*Financial assets and liabilities*

The fair value of investments at amortised cost is disclosed in Note 16. 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 - Owner-occupied properties*

The Bank has adopted the revaluation model under IAS 16 for owner-occupied properties. In addition to fair value measurement considerations, management exercises judgment in determining if and when a revaluation exercise would be necessary, considering, among others, 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).

The fair value of freehold land and buildings is determined by using valuation techniques. The Bank engages external, independent and qualified valuers to determine the fair value of the Company's owner-occupied property. The valuations conform to International Valuation Standards and IFRS 13 Fair Value Measurement. As there have been limited number of similar transactions the valuations have been performed using unobservable inputs. Specifically, for the business centre premises in Limassol, two valuation reports with reference date 31 December 2021 from independent and qualified valuers were obtained. The external valuers, in discussion with management have determined these inputs based on the size, age and condition of the property and comparable prices in the corresponding area including recent market transactions of similar properties. Management has adopted the average of the two valuations obtained as at 31 December 2021 resulting in a fair value of €4,1million. The fair value hierarchy of freehold land and buildings is disclosed in Note 19.

**Information about fair value measurement using significant unobservable inputs (Level 3)**

| | |
|---|---|
| **Property type** | Banking Branch and offices - Limassol |
| **Valuation technique** | Comparables method |
| **Area in square meters** | 548sq.m. |
| **Unobservable inputs** | Price per square meter |
| **Range of unobservable inputs** | €7.200 - €7.800 |
| **Fair value at 31 December 2021** | €4.100.000 |
| **Fair value at 31 December 2020** | €4.100.000 (as restated) |
| **Relationship of unobservable inputs to fair values** | The higher the price per square meter, the higher the fair value |

**Sensitivity of management's estimates**

| | | | Change in fair value | |
|---|---|---|---|---|
| | | | **2021** | **2020** |
| Banking Branch and offices - Limassol | Change in price per square meter | +5% | €205.000 | €205.000 |
| | | -5% | (€205.000) | (€205.000) |

For the restatement of the prior year balances please refer to Note 2.23.

**3.2 Capitalisation of costs of internally generated intangibles**

Management exercises judgement in arriving to the amount of internal software development costs which are capitalised. This judgement is primarily related to staff hours spent on development activities out of the overall efforts of each staff. Management has exercised judgment in determining the ratio between development activities and administrative activities and has concluded that a maximum of 70% of the related costs should be capitalized with the rest being expensed in profit or loss. These assumptions are reviewed at frequent intervals and in validating its judgement the management utilises time tracking data. During the year ended 31 December 2021 an amount of €213.025 (2020: €153.520) relating to staff costs has been capitalized as internally developed computer software (Note 20).

## 4. Interest income

| | 2021 | 2020 |
|---|---|---|
| *Interest income recognised using the effective interest method* | **€** | € |
| Loans and advances to customers | **7.465.720** | 5.457.152 |
| Debt investments at amortised cost | **128.698** | 144.036 |
| Debt investments at fair value through other comprehensive income | **(404)** | 3.100 |
| Placements with banks | **106** | 7.079 |
| ECB funding - TLTRO III (negative interest on funding from central banks) | **289.061** | - |
| | **7.883.181** | 5.611.367 |

## 5. Interest expense

| | 2021 | 2020 |
|---|---|---|
| *Interest expense recognised using the effective interest method* | **€** | € |
| Customer deposits | **169.772** | 315.026 |
| Balances with Central Bank | **140.369** | 128.144 |
| Other borrowings (*Note 23*) | **35.589** | 52.145 |
| Lease liabilities (*Note 24*) | **25.847** | 29.982 |
| Placements with banks | **20.918** | 16.107 |
| | **392.495** | 541.404 |

Balances held with the Central Bank and other banks carry negative interest, which averaged -0,47% as at 31 December 2021 (2020: -0,45%).

## 6. Fee and commission income and expense

*Fee and commission income*

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| Credit related fees and commissions | **427.901** | 420.915 |
| Money transfer fees and commissions | **270.881** | 239.393 |
| Insurance commissions | **216.090** | 158.220 |
| Financial guarantees | **76.786** | 76.237 |
| Other banking commissions and fees | **520.989** | 339.916 |
| Other fees | **107.891** | 99.521 |
| | **1.620.538** | 1.334.202 |

Insurance commissions originate from agreements that the Bank maintains with insurance companies for the purpose of arranging insurances for its customers as part of the credit granting process.

Other banking commissions and fees include account maintenance fees of €127.000 (2020: €41.479), card interchange fees of €222.942 (2020: €168.000) and cheque returned fees of €62.700 (2020: €48.758). Other fees include card related fees of €73.084 (2020: €75.574) and certificates issuance fees of €18.626 (2020: €11.331).

*Fee and commission expense*

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| Correspondent and money transfer costs | **111.214** | 112.597 |
| Card related costs | **133.994** | 109.023 |
| | **245.208** | 221.620 |

## 7. Staff costs

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| Staff salaries and other remuneration, net of subsidies | **3.347.472** | 3.047.219 |
| Pension plan contributions | **213.982** | 64.549 |
| Social insurance and other employer's contributions | **505.028** | 428.893 |
| | **4.066.482** | 3.540.661 |

The average number of persons employed by the Bank during the year ended 31 December 2021 was 101 (2020: 89). Remuneration concerning key management personnel (which consists of executive directors only is included within staff costs) is disclosed in Note 34.

The Bank operates a defined contribution scheme, which provides for employer contributions of 6% on employees' gross salary and for employee contributions within a range of 4%-10% of their gross salary. As part of proactive actions taken by the management of the Bank in response to the side effects of COVID-19, employer contributions were reduced to 2% on employees' gross salary for the period 1 April until 31 December 2020. As of 1 January 2021, employer contributions have been reinstated to 6% for all employees, with the exception of those employees that were adversely affected by the reduced employer contributions, for whom employer contributions were increased to 10% until full reimbursement of amounts foregone. No further obligations exists as at 31 December 2021 as the affected employees have been fully reimbursed.

For the year ended 31 December 2021, staff costs amounting to €213.025 (2020: €153.520) representing salaries and employer's contributions have been capitalised and recognised under intangible assets (Note 20).

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. 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

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| Rental of properties | **-** | 2.700 |
| Utilities and other premises expenses | **218.924** | 187.888 |
| Post and telecommunication expenses | **213.438** | 227.012 |
| Insurance expenses | **61.235** | 61.774 |
| Directors' remuneration and expenses | **133.346** | 148.321 |
| Travelling and training, net of any subsidies | **35.096** | 25.354 |
| Auditors' remuneration for statutory audit | **70.210** | 66.500 |
| Auditors' remuneration for other assurance engagements paid to predecessor auditor | **22.860** | - |
| Underprovision of prior year auditors' remuneration | **11.529** | - |
| Legal and consultancy fees | **331.010** | 279.743 |
| Advertising and promotion | **67.923** | 200.436 |
| Special tax levy on deposits *(Note 10)* | **505.056** | 403.182 |
| Supervisory fees | **138.556** | 88.561 |
| Contributions to resolution funds and deposit guarantee schemes | **82.433** | 50.361 |
| Computer supplies, maintenance and related expenses | **689.740** | 602.378 |
| Card issuing and processing costs | **391.875** | 306.719 |
| Professional and trade subscriptions | **72.077** | 75.051 |
| Printing, stationery and document management expenses | **50.699** | 45.740 |
| Other operating expenses | **99.079** | 86.203 |
| | **3.195.086** | 2.857.923 |

### 9. Decrease/(increase) in credit loss allowance

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| Loans and advances to customers (*Note 13*) | **193.179** | (615.341) |
| Financial guarantees and credit related commitments (*Note 25*) | **(79.940)** | (14.082) |
| Investments at fair value through other comprehensive income (*Note 14*) | **1.053** | (745) |
| Investments at amortised cost (*Note 15*) | **102.424** | (85.185) |
| | **216.716** | (715.353) |

### 10. Income tax

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

| | 2021 | As restated 2020 |
|---|---|---|
| | **€** | € |
| Profit/(loss) before tax | **997.826** | (1.745.995) |
| Corporation tax based on applicable rates | **124.728** | (218.249) |
| *Tax effect of:* | | |
| - Non-deductible expenses | **183.714** | 249.026 |
| - Allowances and income not subject to tax | **(159.238)** | (130.753) |
| - Tax losses for the year | **(149.204)** | 99.976 |
| Total tax expense | **-** | - |
| Withholding tax (charged)/ recovered on dividend income | **(37)** | 162 |
| Tax (charge)/ recovery | **(37)** | 162 |

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 2021, the Bank's tax losses to be carried forward amounted to €14.029.256 (2020: €19.418.296) and are analysed below.

An analysis of accumulated tax losses is as follows:

| | **Income Tax losses 2021** | **Income Tax losses 2020** | **Income tax losses for which a deferred tax asset was recognised 2021** | **Income tax losses for which a deferred tax asset was recognised 2020** | **Income tax losses for which a deferred tax asset was not recognised 2021** | **Income tax losses for which a deferred tax asset was not recognised 2020** |
|---|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** | **€** |
| Expiring in 2021 | - | 5.389.040 | - | - | - | 5.389.040 |
| Expiring in 2022 | 5.556.893 | 5.556.893 | - | - | 5.556.893 | 5.556.893 |
| Expiring in 2023 | 4.750.543 | 4.750.543 | - | - | 4.750.543 | 4.750.543 |
| Expiring in 2024 | 2.922.012 | 2.922.012 | - | - | 2.922.012 | 2.922.012 |
| Expiring in 2025 | 799.808 | 799.808 | - | - | 799.808 | 799.808 |
| **Total** | **14.029.256** | **19.418.296** | - | - | **14.029.256** | **19.418.296** |

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

### 10. Income tax (continued)

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc.) are exempt from Cyprus income tax.

**<u>Special Tax Levy on Credit Institutions</u>**

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 2021, the total Special Tax Levy imposed on the Bank's qualifying deposits amounted to €505.056 (2020: €403.182) and is included under 'Other operating expenses' line (Note 8).

### 11. Cash and balances with Central Bank

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| Cash | **6.983.947** | 4.891.130 |
| Balances with Central Bank of Cyprus | | |
| - Non-obligatory balances | **75.866.158** | 39.137.176 |
| - Obligatory balances for regulatory liquidity purposes | **3.590.802** | 2.861.136 |
| | **86.440.907** | 46.889.442 |

There was no ECL allowance recognized on balances with Central Bank of Cyprus for the years 2021 and 2020 as the impact was not material.

Details of which amounts are considered cash and cash equivalents are presented in Note 31.

### 12. Placements with banks

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| *Foreign Banks* | | |
| - Short-term placements considered cash equivalents (Note 31) | **5.918.631** | 4.557.610 |
| | **5.918.631** | 4.557.610 |

There was no ECL allowance recognized on placements with banks for the years 2021 and 2020 as the impact was not material.

Placements with foreign banks mainly refer to current balances on nostro accounts with correspondent banks. The majority of these balances in 2021 was kept with BNY Mellon for a total amount of €4.263.567 (2020: €756.416). All placements with foreign banks carry an interest charge based on the interbank rate of the relevant term and currency.

The currency analysis and the analysis of credit ratings of placements with banks by independent rating agencies are presented in Note 32.

## 13. Loans and advances to customers

| | 2021 | 2020 |
|---|---|---|
| | € | € |
| **Housing loans** | **148.489.882** | 130.779.568 |
| **Consumer** | | |
| Loans | **13.470.388** | 12.440.676 |
| Overdrafts | **653.859** | 515.072 |
| | **14.124.247** | 12.955.748 |
| **Business** | | |
| Loans | **133.412.352** | 118.550.734 |
| Overdrafts | **11.960.959** | 10.287.966 |
| | **145.373.311** | 128.838.700 |
| **Gross carrying amount of loans and advances to customers at amortised cost** | **307.987.440** | 272.574.016 |
| Less: credit loss allowance on loans and advances to customers | **(950.294)** | (1.143.473) |
| **Total carrying amount of loans and advances to customers at amortised cost** | **307.037.146** | 271.430.543 |

| *Movement of loss allowance on loans and advances to customers* | 2021 | 2020 |
|---|---|---|
| | € | € |
| 1 January | **(1.143.473)** | (528.132) |
| Decrease/(increase) in credit loss allowance for the year (*Note 9*) | **193.179** | (615.341) |
| 31 December | **(950.294)** | (1.143.473) |

On 31 December 2021, an amount of €476.948 (2020: €314.782) were classified by the Bank as non- performing exposures.

On 31 December 2021, an amount of €3.105.332 (2020: nil) were classified as forborne exposures. This was mainly as a result of the expiry of the payment moratoria that were granted within 2020. As part of the portfolio monitoring procedures, the Bank has agreed revisions on loan terms with certain clients, the majority of which were affected by the economic outcome of Covid-19. Where applicable such exposures were classified as forborne in accordance with the relevant EBA definition as described in note 2.8.3.

Details on accounting policy for ECL, non-performing exposures and foreborne exposures are presented in Note 2.8.4 and details on significant estimates and judgements in calculating the credit loss allowance are presented in Note 3.

## 14. Investments at fair value through other comprehensive income

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| **Debt securities (bonds)** | | |
| Credit institutions | **601.823** | 1.807.149 |
| Non-financial corporations | **300.252** | 301.074 |
| **Gross carrying amount** | **902.075** | 2.108.223 |
| Less: credit loss allowance on investments at fair value through other comprehensive income | **-** | (1.053) |
| **Net carrying amount** | **902.075** | 2.107.170 |
| **Equity instruments designated and measured at fair value through other comprehensive income** | | |
| Equity instruments (SWIFT) | **53.235** | - |
| **Exchange-traded funds** | **85.888** | 80.261 |
| **Total net carrying amount of investments at FVOCI** | **1.041.198** | 2.187.431 |
| Listed on European stock exchanges | **902.075** | 2.107.170 |
| Listed on US stock exchanges | **85.888** | 80.261 |
| Unlisted | **53.235** | - |
| **Net carrying amount** | **1.041.198** | 2.187.431 |

There was no ECL allowance recognized on debt securities at FVOCI for the year 2021 as the impact was not material.

The Bank has classified its investment in exchange-traded funds and in equity instruments held as at 31 December 2021 at FVOCI because it does not hold them for trading. The Bank has irrevocably elected to classify them at FVOCI on initial recognition.

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

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| At 1 January | **(1.053)** | (308) |
| Decrease/(increase) in credit loss allowance for the year (*Note 9*) | **1.053** | (745) |
| **At 31 December** | **-** | (1.053) |

| *Geographical breakdown based on region / country of issuer* | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| United States of America | **85.888** | 1.283.080 |
| European Union countries | **955.310** | 904.351 |
| **Total** | **1.041.198** | 2.187.431 |

During 2021 the Bank did not acquire any debt investments at fair value through other comprehensive income (2020: €nil). Additonally, during 2021, the Bank acquired equity instruments measured at fair value through other comprehensive income valued at €53.235 (2020: €nil). Investments of nominal amount of €1.200.000 matured during 2021 (2020: €100.000). The classification of investments in accordance with their fair value hierarchy are presented in Note 16.

## 15. Investments at amortised cost

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| **Debt securities (bonds)** | | |
| Cyprus government | **1.500.000** | 2.499.965 |
| Other governments | **5.845.210** | 6.549.669 |
| Credit institutions | **4.646.658** | 5.171.241 |
| Other financial corporations | **4.817.500** | 4.361.467 |
| Non-financial corporations | **4.669.282** | 6.978.294 |
| **Gross carrying amount** | **21.478.650** | 25.560.636 |
| Less: credit loss allowance on investments at amortised cost | **(6.204)** | (108.628) |
| **Net carrying amount** | **21.472.446** | 25.452.008 |
| Listed on Cyprus Stock Exchange | **1.499.980** | 2.494.133 |
| Listed on European stock exchanges | **19.972.466** | 22.957.875 |
| **Net carrying amount** | **21.472.446** | 25.452.008 |

*Movement of loss allowance on investments at amortised cost*

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| 1 January | **(108.628)** | (23.443) |
| Decrease/(increase) in credit loss allowance for the year (*Note 9*) | **102.424** | (85.185) |
| 31 December | **(6.204)** | (108.628) |

*Geographical breakdown based on region / country of issuer*

| | 2021 | 2020 |
|---|---|---|
| | **€** | € |
| Cyprus | **1.499.980** | 2.499.965 |
| European Union countries | **14.837.652** | 17.783.796 |
| Other countries | **5.134.814** | 5.168.247 |
| **Net carrying amount** | **21.472.446** | 25.452.008 |

Other countries include Canada, United Kingdom and United States of America among others.

During 2021 the Bank acquired investments at amortised cost of nominal amount of €8.007.015 (2020: €12.500.000). Additionally, investments of nominal amount of €11.850.000 matured during 2021 (2020: €11.673.000). No disposals of investments at amortised cost took place during 2021 (2020: €nil).

The weighted average acquisition yield on investments at amortised cost held as at 31 December 2021 was 0,59% (2020: 0,55%).

The fair value of investments at amortised cost and their classification in accordance with the fair value hierarchy are presented in Note 16.

For more details on terms of funding from central banks and the collaterals pledged refer to Note 22.

The credit ratings applicable to investments at amortised cost as at 31 December 2021 and 2020 and the relevant currency analysis are presented in Note 32.

### 16. Fair value measurement of financial assets and financial liabilities

| | **2021** Carrying value € | **2021** Fair value € | 2020 Carrying value € | 2020 Fair value € |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with Central Bank | **86.440.907** | **86.440.907** | 46.889.442 | 46.889.442 |
| Placements with banks | **5.918.631** | **5.918.631** | 4.557.610 | 4.557.610 |
| Loans and advances to customers | **307.037.146** | **307.037.146** | 271.430.543 | 271.430.543 |
| Investments at fair value through other comprehensive income | **1.041.198** | **1.041.198** | 2.187.431 | 2.187.431 |
| Investments at amortised cost | **21.472.446** | **21.925.402** | 25.452.008 | 26.223.364 |
| Other assets (excluding deposits and prepayments) | **2.788.794** | **2.788.794** | 2.878.904 | 2.878.904 |
| | **424.699.122** | **425.152.078** | 353.395.938 | 354.167.294 |
| **Financial liabilities** | | | | |
| Customer deposits | **369.179.482** | **369.179.482** | 296.260.609 | 296.260.609 |
| Funding from central banks | **13.131.981** | **13.131.981** | 18.000.000 | 18.000.000 |
| Other borrowings | **6.990.642** | **6.990.642** | 8.124.749 | 8.124.749 |
| Lease liabilities | **784.492** | **784.492** | 989.645 | 989.645 |
| Other creditors and liabilities | **3.150.247** | **3.150.247** | 2.128.617 | 2.128.617 |
| | **393.236.844** | **393.236.844** | 325.503.620 | 325.503.620 |

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 in accordance with International Financial Reporting Standards 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.

### 16. Fair value measurement of financial assets and financial liabilities (continued)

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

| **2021** | **Level 1 €** | **Level 2 €** | **Level 3 €** | **Total €** |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| Investments at fair value through other comprehensive income | **987.963** | **-** | **53.235** | **1.041.198** |
| **Financial assets not measured at fair value** | | | | |
| Cash and balances with Central Bank | **-** | **86.440.907** | **-** | **86.440.907** |
| Placements with banks | **-** | **5.918.631** | **-** | **5.918.631** |
| Loans and advances to customers | **-** | **-** | **307.037.146** | **307.037.146** |
| Investments at amortised cost | **20.423.802** | **1.501.600** | **-** | **21.925.402** |
| Other assets (excluding deposits and prepayments) | **-** | **-** | **2.788.794** | **2.788.794** |
| | **20.423.802** | **93.861.138** | **309.825.940** | **424.110.880** |
| **Financial liabilities not measured at fair value** | | | | |
| Customer deposits | **-** | **-** | **369.179.482** | **369.179.482** |
| Funding from central banks | **-** | **13.131.981** | **-** | **13.131.981** |
| Other borrowings | **-** | **6.990.642** | **-** | **6.990.642** |
| Other creditors and liabilities | **-** | **-** | **3.150.247** | **3.150.247** |
| | **-** | **20.122.623** | **372.329.729** | **392.452.352** |

| **2020** | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| Investments at fair value through other comprehensive income | 2.187.431 | - | - | 2.187.431 |
| **Financial assets not measured at fair value** | | | | |
| Cash and balances with Central Bank | - | 46.889.442 | - | 46.889.442 |
| Placements with banks | - | 4.557.610 | - | 4.557.610 |
| Loans and advances to customers | - | - | 271.430.543 | 271.430.543 |
| Investments at amortised cost | 23.727.441 | 2.495.923 | - | 26.223.364 |
| Other assets (excluding deposits and prepayments) | - | - | 2.878.904 | 2.878.904 |
| | 23.727.441 | 53.942.975 | 274.309.447 | 351.979.863 |
| **Financial liabilities not measured at fair value** | | | | |
| Customer deposits | - | - | 296.260.609 | 296.260.609 |
| Funding from central banks | - | 18.000.000 | - | 18.000.000 |
| Other borrowings | - | 8.124.749 | - | 8.124.749 |
| Other creditors and liabilities | - | - | 2.128.617 | 2.128.617 |
| | - | 26.124.749 | 298.389.226 | 324.513.975 |

## 16. Fair value measurement of financial assets and financial liabilities (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:

- 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 (except from equity investments designated at FVOCI which are unlisted and thus are categorised as Level 3).
- The cash and balances with Central Bank of Cyprus, placements with banks, other borrowings and funding from central banks are financial instruments whose fair value is determined on the basis of observable market interest rates are categorised at Level 2 and their fair value approximates their carrying amount as they are frequently repriced.
- Investments at amortised cost primarily consist of debt securities which, for disclosure purposes, are fairly valued using quoted prices in active markets. As a result, they are categorised as Level 1, with the exception of Treasury Bills which are classified as Level 2 based on quoted market prices in markets of low activity.
- Loans and advances to customers are categorised as Level 3. Due to the frequent repricing to current market rates their carrying amount is considered to approximate their fair value.
- Customer deposits are considered to approximate their carrying values and are categorised as Level 3. The estimated fair value of deposits with no stated maturity is the amount repayable on demand. For the remaining deposits (the majority of which are maturing within one year) the carrying amount is considered to approximate their fair value given their residual maturity is less than two years and they are frequently repriced to market rates.
- The carrying amounts of other assets (excluding deposits and prepayments) and other creditors and liabilities approximate their fair value as at 31 December 2021 and 2020 as they are short term in nature, and are categorized as Level 3.

For details on the fair value measument of the owner-occupied property refer to Note 3.

Comparative figures have been restated to show the funding from central banks and other borrowings categorised as Level 2 as such classification is more representative of their fair value hierarchy. The restatement did not have any impact on the rest of the notes to the financial statements.

There were no transfers between fair value levels during the year.

## 17. Offsetting financial assets and liabilities

The Bank did not offset any financial assets or financial liabilities under enforceable master netting arrangements or any similar agreements.

## 18. Other assets

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| Receivables from parent company (*Note 34*) (Stage 1) | **260.701** | 226.691 |
| Deposits and prepayments | **575.770** | 357.908 |
| Other receivables (Stage 1) | **2.528.093** | 2.652.213 |
| | **3.364.564** | 3.236.812 |

The estimated loss allowance on receivables from parent company and other receivables was immaterial.

Deposits and prepayments include an amount of €45.125 (2020: €34.875) relevant to premises lease agreements and related expenses.

‘Other receivables’ mainly consist of cheques pending clearance and settlement accounts amounting to €1.966.186 (2020: €2.103.917) and amounts held with counterparties for cards clearing arrangements amounting to €500.000 (2020: €500.000).

## 19. Property and equipment

| **2021** | **Land** € | **Freehold property - Building** € | **Leasehold improvements** € | **Equipment** € | **Furniture and fittings** € | **Right-of-use assets** € | **Other tangible assets** € | **Total** € |
|---|---|---|---|---|---|---|---|---|
| **Cost /fair value** | | | | | | | | |
| 1 January | **1.200.000** | **2.900.000** | **1.519.094** | **1.412.649** | **570.990** | **1.906.152** | **-** | **9.508.885** |
| Additions | **-** | **9.772** | **1.070** | **74.486** | **6.877** | **-** | **23.094** | **115.299** |
| Transfers between categories | **-** | **21.622** | **57.698** | **15.211** | **(79.411)** | **-** | **(15.120)** | **-** |
| Revaluation adjustment | **-** | **(31.394)** | **-** | **-** | **-** | **-** | **-** | **(31.394)** |
| 31 December | **1.200.000** | **2.900.000** | **1.577.862** | **1.502.346** | **498.456** | **1.906.152** | **7.974** | **9.592.790** |
| **Depreciation** | | | | | | | | |
| 1 January | **-** | **-** | **782.540** | **864.086** | **276.251** | **990.765** | **-** | **2.913.642** |
| Charge for the year | **-** | **95.390** | **157.701** | **193.585** | **49.475** | **194.359** | **-** | **690.510** |
| Transfers between categories | **-** | **9.929** | **27.685** | **-** | **(37.614)** | **-** | **-** | **-** |
| Revaluation adjustment | **-** | **(105.319)** | **-** | **-** | **-** | **-** | **-** | **(105.319)** |
| 31 December | **-** | **-** | **967.926** | **1.057.671** | **288.112** | **1.185.124** | **-** | **3.498.833** |
| **Net Book Value** | **1.200.000** | **2.900.000** | **609.936** | **444.675** | **210.344** | **721.028** | **7.974** | **6.093.957** |

| **2020** | Land € | Freehold property – Building € | Leasehold improvements € | Equipment € | Furniture and fittings € | Right-of-use assets € | Other tangible assets € | Total € |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| 1 January (as previously reported) | 1.200.000 | 3.409.942 | 1.515.789 | 1.150.272 | 558.685 | 1.839.095 | 71.280 | 9.745.063 |
| Correction of prior period error | - | (509.942) | - | - | - | - | - | (509.942) |
| 1 January (restated) | 1.200.000 | 2.900.000 | 1.515.789 | 1.150.272 | 558.685 | 1.839.095 | 71.280 | 9.235.121 |
| Additions | - | 10.641 | 3.305 | 119.817 | 12.305 | 67.057 | 71.280 | 284.405 |
| Transfers between categories | - | - | - | 142.560 | - | - | (142.560) | - |
| Revaluation adjustment | - | (10.641) | - | - | - | - | - | (10.641) |
| 31 December | 1.200.000 | 2.900.000 | 1.519.094 | 1.412.649 | 570.990 | 1.906.152 | - | 9.508.885 |
| **Depreciation** | | | | | | | | |
| 1 January (as previously reported) | - | 161.402 | 630.780 | 638.612 | 219.815 | 804.620 | - | 2.455.229 |
| Correction of prior period error | - | (161.402) | - | - | - | - | - | (161.402) |
| 1 January (restated) | - | - | 630.780 | 638.612 | 219.815 | 804.620 | - | 2.293.827 |
| Charge for the year | - | 92.355 | 151.760 | 225.474 | 56.436 | 186.145 | - | 712.170 |
| Revaluation adustment | - | (92.355) | - | - | - | - | - | (92.355) |
| 31 December | - | - | 782.540 | 864.086 | 276.251 | 990.765 | - | 2.913.642 |
| **Net Book Value** | 1.200.000 | 2.900.000 | 736.554 | 548.563 | 294.739 | 915.387 | - | 6.595.243 |

For more details on how the fair value of the freehold land and buildings was determined and the sensitivity analysis performed to the key unobservable inputs used in the valuation process refer to Note 3.

**19. Property and equipment (continued)**

Details of the Bank's freehold land and buildings and information about their fair value hierarchy as at the end of 2021 and 2020 and as of 1 January 2020 are as follows:

| | Level 1<br>€ | Level 2<br>€ | Level 3<br>€ | Total<br>€ |
|---|---|---|---|---|
| Freehold land | - | - | 1.200.000 | 1.200.000 |
| Freehold buildings | - | - | 2.900.000 | 2.900.000 |
| | - | - | 4.100.000 | 4.100.000 |

There have been no transfers between levels during 2021 and 2020.

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 property and equipment are classified as non-current assets.

**20. Intangible assets**

| **2021** | Computer software and licences<br>€ | Intangibles under development<br>€ | Total<br>€ |
|---|---|---|---|
| **Cost** | | | |
| 1 January | 3.184.346 | 219.991 | 3.404.337 |
| Additions | 83.842 | 449.297 | 533.139 |
| Transfers | 517.764 | (517.764) | - |
| 31 December | 3.785.952 | 151.524 | 3.937.476 |
| **Amortisation** | | | |
| 1 January | 2.624.895 | - | 2.624.895 |
| Charge for the year | 241.059 | - | 241.059 |
| 31 December | 2.865.954 | - | 2.865.954 |
| **Net book value** | 919.998 | 151.524 | 1.071.522 |

### 20. Intangible assets (continued)

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

Intangibles under development consist of computer software developed by the Bank which has not yet been released into use plus attributable capitalized staff costs.

There were no material borrowing costs incurred by the Bank during the years 2021 and 2020 as part of the intangible assets development that should have been capitalized.

The intangible assets are classified as non-current assets.

### 21. Customer deposits

| | **2021** € | 2020 € |
|---|---|---|
| Current accounts | **242.539.044** | 183.234.535 |
| Savings accounts | **34.319.015** | 29.632.999 |
| Fixed term deposit accounts | **92.321.423** | 83.393.075 |
| | **369.179.482** | 296.260.609 |

As at 31 December 2021, customer deposits of total €13,4 million were pledged as collateral to credit facilities granted to customers.

### 22. Funding from central banks

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

| | **2021** € | 2020 € |
|---|---|---|
| Targeted Longer-Term Refinancing Operations III | **13.131.981** | 18.000.000 |

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

Principal repayments of TLTRO III.1 amounting to €4.650.000 (2020: nil) have been effected during 2021, exercising the option of early repayment.

**22. Funding from central banks (continued)**

In 2020, the Bank was granted financing amounting to €8.700.000 as part of the TLTRO III.

In recognition of the challenging credit environment during the pandemic period, the Governing Council of the ECB announced that the interest rate on all outstanding TLTRO III operations for the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 will be 50 basis points below the average rate applicable in the Eurosystem's main refinancing operations over the same period. The interest rate on the main refinancing operations is currently at 0%. For the counterparties whose eligible net lending reaches the lending performance thresholds, the interest rate applied over the periods from 24 June 2020 to 23 June 2021 and 24 June 2021 to 23 June 2022 on all TLTRO III operations outstanding will be 50 basis points below the average interest rate on the deposit facility prevailing over the same period, and in any case not higher than minus 1%. The deposit facility rate is currently minus 0.5%. The Bank has exceeded the eligible net lending benchmark applicable for the first period of 24 June 2020 to 23 June 2021 and was entitled to the beneficial rate of minus 1%. Based on internal estimations, the Bank is also expected to exceed the eligible net lending benchmark and therefore expects to be entitled to the beneficial rate of minus 1% for the period June 2021 - June 2022.

The final interest rate to be charged on each operation is announced either upon early termination at the option of the Bank or at maturity.

In calculating the interest the Bank follows a discrete approach by applying the relevant interest rate applicable for each period. Given that, the level of interest rate for each period is conditional to certain achievements, it is not possible to make reliable estimates from the beginning of the financing in regards to the level of interest rate applicable for each period and therefore the Bank considers as the effective interest rate to be used as the rate applicable for each period. It is also noted that the interest rate of this loan has not been treated as an off-market interest rate loan as the ECB has provided it to all credit institutions under its supervision.

During 2021 total interest of €289.061 (2020: nil) has been recognised as 'Interest income calculated using the effective interest rate method' in the statement of profit or loss (Note 4).

Details on encumbered assets related to the above funding facilities are disclosed in Notes 15 and 32.

**23. Other borrowings**

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| 1 January | **8.124.749** | 9.275.340 |
| Advancements | **-** | - |
| Interest charged (*Note 5*) | **35.589** | 52.145 |
| Repayments | **(1.169.696)** | (1.202.736) |
| 31 December | **6.990.642** | 8.124.749 |

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.

**23. Other borrowings (continued)**

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.

**24. Lease liabilities**

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| 1 January | **989.645** | 1.106.651 |
| Additions | **-** | 67.057 |
| Interest accrued (*Note 5*) | **25.847** | 29.982 |
| Lease payments | **(231.000)** | (214.045) |
| 31 December | **784.492** | 989.645 |

The total cash outflow for lease liabilities for the year amounted to €231.000 (2020: €214.045).

The analysis of lease liabilities by expected maturity is disclosed in Note 29 and by contractual maturity in Note 32.

**25. Provisions and other liabilities**

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| Social insurance and related taxes, defence tax and stamp duty payable | **193.253** | 198.263 |
| Accrued expenses | **301.153** | 288.484 |
| VAT payable | **8.021** | 10.818 |
| Loss allowance on financial guarantees and commitments | **137.175** | 57.235 |
| Other creditors and liabilities | **3.150.247** | 2.128.617 |
| | **3.789.849** | 2.683.417 |

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

*Movement of credit loss allowance on financial guarantees and commitments*

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| 1 January | **57.235** | 43.153 |
| Credit loss allowance for the year (*Note 9*) | **79.940** | 14.082 |
| 31 December | **137.175** | 57.235 |

### 26. Share capital and share premium

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **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 | **121.000** | **121.000** | **59.880.000** | 101.000 | 101.000 | 49.900.000 |
| Issue of ordinary shares | **5.000** | **5.000** | **2.495.000** | 20.000 | 20.000 | 9.980.000 |
| 31 December | **126.000** | **126.000** | **62.375.000** | 121.000 | 121.000 | 59.880.000 |

**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**

During 2021, and based on a resolution passed by the Board of Directors on 15 October 2021, the Bank has issued and allotted an additional 5.000 ordinary shares of €1 each at a premium of €499 each, to Ancoria Investments Plc for a total subscription price of €2.500.000.

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.

As at 31 December 2021, the Bank had a total issued share capital of 126.000 (2020: 121.000) ordinary shares of nominal value of €1 each, at a total premium of €62.375.000 (2021: €59.880.000).

### 27. Revaluation reserve

| | 2021 | 2020 |
|---|---|---|
| **Revaluation reserve for securities at FVOCI** | **€** | € |
| 1 January | **6.321** | 7.919 |
| Revaluation of equity instruments at fair value through other comprehensive income | **(5.627)** | (6.480) |
| Revaluation of debt instruments at fair value through other comprehensive income | **1.652** | 4.882 |
| 31 December | **2.346** | 6.321 |

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; and
- 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 dividends are retained earnings. In 2021 and 2020, no dividends were paid nor declared to be paid since the Bank had accumulated losses despite reverting to profitability during the year.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution (SDC) at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company, at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents or individuals who are domiciled in Cyprus. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus. From 1 March 2019, the deemed dividend distribution is subject to 1.70% contribution to the General Health System (GHS), increased to 2.65% from 1 March 2020, with the exemption of April 2020 until June 2020 when the 1.70% rate was applicable.

The Bank incurred losses in 2019 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

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Less than one year** | **Over one year** | **Total** | Less than one year | Over one year | Total |
| | **€** | **€** | **€** | € | € | € |
| **Assets** | | | | | | |
| Cash and balances with Central Bank | **82.850.105** | **3.590.802** | **86.440.907** | 44.028.305 | 2.861.137 | 46.889.442 |
| Placements with banks | **5.918.631** | **-** | **5.918.631** | 4.557.610 | - | 4.557.610 |
| Loans and advances to customers | **24.771.014** | **282.266.132** | **307.037.146** | 20.420.395 | 251.010.148 | 271.430.543 |
| Investments at fair value through other comprehensive income | **902.075** | **139.123** | **1.041.198** | 602.362 | 1.585.069 | 2.187.431 |
| Investments at amortised cost | **4.858.348** | **16.614.098** | **21.472.446** | 5.364.323 | 20.087.685 | 25.452.008 |
| Other assets | **3.364.564** | **-** | **3.364.566** | 3.236.812 | - | 3.236.812 |
| | **122.664.737** | **302.610.155** | **425.274.894** | 78.209.807 | 275.544.039 | 353.753.846 |
| **Liabilities** | | | | | | |
| Customer deposits | **63.970.802** | **305.208.680** | **369.179.482** | 49.874.607 | 246.386.002 | 296.260.609 |
| Funding from central banks | **13.131.981** | **-** | **13.131.981** | 4.650.000 | 13.350.000 | 18.000.000 |
| Other borrowings | **1.224.424** | **5.766.218** | **6.990.642** | 610.305 | 7.514.444 | 8.124.749 |
| Lease liabilities | **215.409** | **569.083** | **784.492** | 231.000 | 758.645 | 989.645 |
| Provisions and other liabilities | **3.652.674** | **137.175** | **3.789.849** | 2.626.182 | 57.235 | 2.683.417 |
| | **82.195.290** | **311.681.156** | **393.876.446** | **57.992.094** | **268.066.326** | **326.058.420** |

Comparative figures of customer deposits and cash and balances with Central Bank have been restated to present the split between less than one year and over one year in a more representative way consistent with current year. The restatement did not have any impact on the rest of the notes to the financial statements.

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.

**29. Analysis of assets and liabilities by expected maturity (continued)**

- 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 a combination of contractual maturity as well as behavioural analysis.
- Funding from Central Bank and other borrowings are classified based on their expected repayment schedule and the Bank's intentions where earlier repayment is permitted.
- 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. Net cash flow from operating activities**

| | **2021** €| As restated 2020 € |
|---|---|---|
| **Profit/(loss) before tax** | **997.826** | (1.745.995) |
| *Adjustments:* | | |
| Depreciation of property and equipment | **690.510** | 712.170 |
| Amortisation of intangible assets | **241.059** | 212.664 |
| (Decrease)/increase in credit loss allowance | **(216.716)** | 715.353 |
| Loss on disposal of financial instruments | **800** | - |
| Net foreign exchange (gains) / losses | **(18.261)** | 11.190 |
| Write-off of other receivables | **3.595** | 7.124 |
| Interest expense on lease liabilities | **25.847** | 29.982 |
| Interest expense on other borrowings | **35.589** | 52.145 |
| Amortisation of premiums / discounts and interest on debt securities | **(112.592)** | (78.922) |
| Reversal of impairment on property and equipment | **(73.925)** | (81.714) |
| Interest income from funding received from central banks | **(289.061)** | - |
| | **286.845** | 1.579.992 |
| *Changes in operating assets:* | | |
| Obligatory balances held with the Central Bank | **(729.664)** | (716.678) |
| Long-term placements with banks | **-** | 1.173.847 |
| Loans and advances to customers | **(35.412.852)** | (62.423.859) |
| Other assets | **(128.356)** | (370.559) |
| | **(36.270.872)** | (62.337.249) |
| *Changes in operating liabilities:* | | |
| Customer deposits | **72.933.544** | 71.676.128 |
| Provisions and other liabilities | **1.026.488** | (1.355.702) |
| | **73.960.032** | 70.320.426 |
| **Net cash flow from operating activities** | **38.973.831** | 7.817.174 |

## 31. Cash and cash equivalents

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| Cash and non-obligatory balances with the Central Bank (*Note 11*) | **82.850.105** | 44.028.306 |
| Short-term placements with banks (*Note 12*) | **5.918.631** | 4.557.610 |
| | **88.768.736** | 48.585.916 |

At 31 December 2021, placements with the Central Bank amounted to €79.456.960 (2020: €41.998.312).

**Reconciliation of liabilities arising from financing activities:**

| | **Funding from central banks €** | **Other borrowings €** | **Lease liabilities €** | **Total liabilities from financing activities €** |
|---|---|---|---|---|
| **Opening balance 1 January 2021** | 18.000.000 | 8.124.749 | 989.645 | 27.114.394 |
| Cash flows: | | | | |
| Repayment of principal | (4.650.000) | (1.134.107) | (205.153) | (5.989.260) |
| Repayment of interest | 71.042 | (35.589) | (25.847) | 9.606 |
| Interest expense | (289.061) | 35.589 | 25.847 | (227.625) |
| **Closing balance – 31 December 2021** | **13.131.981** | **6.990.642** | **784.492** | **20.907.115** |

| | **Funding from central banks €** | **Other borrowings €** | **Lease liabilities €** | **Total liabilities from financing activities €** |
|---|---|---|---|---|
| **Opening Balance 1 January 2020** | 9.300.000 | 9.275.340 | 1.106.651 | 19.681.991 |
| Cash flows: | | | | |
| Proceeds from borrowings | 8.700.000 | - | - | 8.700.000 |
| Repayment of principal | - | (1.150.591) | (184.063) | (1.330.820) |
| Repayment of interest | - | (52.145) | (29.982) | (85.961) |
| Interest expense | - | 52.145 | 29.982 | 82.127 |
| Other non-cash changes: | - | - | - | - |
| Acquisitions/Additions | - | - | 67.057 | 67.057 |
| **Closing Balance – 31 December 2020** | **18.000.000** | **8.124.749** | **989.645** | **27.114.394** |

## 32. Risk management

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

### Credit risk

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

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

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

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

a. Two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other(s).
b. Two or more natural or legal persons between whom there is no relationship of control as described in point (a) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding or repayment difficulties.

### 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.

**32. Risk management (continued)**

**Credit risk (continued)**

**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. Specifically, credit risk arises mainly from loans and advances to customers and loan commitments arising from such lending activities but can also arise from financial guarantees, investments in debt securities and other exposures including other assets, bank balances with central banks and placements with banks. For each portfolio, the Bank performs an analysis of credit concentration (in terms of group of connected clients, economic sector, country and product), credit default and collateral.

**Credit granting organisational framework, policies and procedures**

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

In cases of facilities that seek approval from a Committee, these need to go through the Credit Sanctioning. Credit sanctioning should issue the approval/rejection decisions together with the various terms/covenants imposed. In case these terms are amended following renegotiation with the client, then Credit Sanctioning should issue the "final approval" document that should include all terms. In cases of facilities that seek approval from a Committee, after they go through the Credit Sanctioning, need to be submitted for comments to the RMF. The Credit Granting Authorities and the relevant exposure limits are published through a relevant circular issued by the Bank.

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

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

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

**Credit risk monitoring and reporting**

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

The Bank is continuously implementing improvements in the monitoring of credit risk on the loan portfolio by enhancing information reported both at ALCO and Risk Committee level depending on prevailing conditions.

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 2.8.

**32. Risk management (continued)**

**Credit risk (continued)**

**Arrears Management Process**

The Bank has in place an Arrears Management Policy and Strategy, as well as an Arrears Management Procedure which is in accordance with the CBC's Directive on Arrears Management of 2015 to 2020.

The Bank's policy has been formulated to provide all stakeholders with a comprehensive understanding of how the arrears is to be extended by the Bank and ensure that all staff has a current and consistent guidance.

The Bank has developed a comprehensive and detailed arrears management strategy (AMS) to effectively manage arrears and deal with borrowers in financial difficulties in a systematic, organised and professional manner and is submitted to the CBC for assessment. The AMS includes a clearly defined approach for each of the main category of credit facilities it serves and an operational plan covering the main components of arrears management.

**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.

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| Balances with Central Bank (*Note 11*) | **79.456.960** | 41.998.312 |
| Placements with banks (*Note 12*) | **5.918.631** | 4.557.610 |
| Loans and advances to customers, net of loss allowance (*Note 13*) | **307.037.146** | 271.430.543 |
| Debt investments at fair value through other comprehensive income, net of loss allowance (*Note 14*) | **902.075** | 2.107.170 |
| Investments at amortised cost, net of loss allowance (*Note 15*) | **21.472.446** | 25.452.008 |
| Other assets (excluding deposits and prepayments) (*Note 18*) | **2.788.794** | 2.878.904 |
| **Total on statement of financial position** | **417.576.052** | 348.424.547 |
| Undisbursed loan facilities | **21.375.858** | 25.103.367 |
| Undrawn overdraft facilities | **12.335.057** | 11.631.344 |
| Letters of guarantee | **5.155.617** | 3.208.261 |
| Letters of credit | **-** | 89.111 |
| Unutilised trade finance limits | **2.838.046** | 4.021.636 |
| **Total off-balance sheet position** (*Note 36*) | **41.704.578** | 44.053.719 |
| Loss allowance on financial guarantees and commitments (*Note 25*) | **(137.175)** | (57.235) |
| **Off-balance sheet position, net of loss allowance** | **41.567.403** | 43.996.484 |
| **Total credit exposure** | **459.143.455** | 392.421.031 |

**32. Risk management (continued)**

**Credit risk (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.

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.

***Loans and advances to customers***

**Analysis of loans and advances to customers by economic activity**

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| Trade | **20.485.163** | 20.029.667 |
| Manufacturing | **11.172.931** | 6.559.008 |
| Real estate and construction | **74.471.706** | 61.165.440 |
| Tourism and Leisure | **7.394.910** | 3.855.095 |
| Professional and other services | **13.378.676** | 17.978.911 |
| Other sectors | **14.397.234** | 20.132.881 |
| Private individuals | **166.686.820** | 142.853.014 |
| **Total gross loans and advances** | **307.987.440** | 272.574.016 |

Loans to private individuals consist of €129,5m (2020: €111,9m) of residential mortgage loans and €20,4m (2020: €18,9) credit for consumption.

**Collateral and other credit enhancements**

As at 31 December 2021, 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.

As at 31 December 2021, credit-impaired loans amounted to €476.948 for which collateral held as security consisted of property mortgages of value €540.000 (fair value amounting to €1.948.000), personal guarantees for the amount of €373.000, life insurances of value €392.726, floating charges of €200.000 and assignment of inventory €32.000.

The criteria met for the loan facilities classified as Stage 2 and 3 as at 31 December 2021 were:

- Exposures, regardless of origination date, with more than 30 days past due but less than 90 days past due or otherwise classified as Stage 2 - €6.492.587.
- Defaulted exposures and material exposures of more than 90 days past due classified as Stage 3 - €476.948.

**32. Risk management (continued)**

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Loans and advances to customers – by staging**

The following tables disclose the changes in the credit loss allowance and gross carrying amounts for loans and advances to customers carried at amortised cost for the year ended 31 December 2021:

| | 2021 | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| As at 1 January | **262.092.734** | **10.166.500** | **314.782** | **272.574.016** |
| New assets originated or purchased | 50.328.175 | 359.759 | 28.651 | 50.716.585 |
| Transfers to Stage 1 | 4.903.112 | (4.887.841) | (15.271) | - |
| Transfers to Stage 2 | (3.457.253) | 3.491.863 | (34.610) | - |
| Transfers to Stage 3 | (215.226) | (163.243) | 378.469 | - |
| Other movement during the year | (1.673.096) | (1.186.269) | (26.476) | (2.885.841) |
| Assets derecognised or repaid | (10.960.541) | (1.288.182) | (168.597) | (12.417.320) |
| As at 31 December | **301.017.905** | **6.492.587** | **476.948** | **307.987.440** |
| Individually assessed | - | - | 220.645 | 220.645 |
| Collectively assessed | 301.017.905 | 6.492.587 | 256.303 | 307.766.795 |
| | **301.017.905** | **6.492.587** | **476.948** | **307.987.440** |

"Other movement during the year" represents the net effect of interest accrued, repayments collected for not fully repaid exposures and further utilisation/disbursement of facilities which were not fully utilised/disbursed as at the beginning of the year.

| | 2021 | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| As at 1 January | **687.479** | **315.051** | **140.943** | **1.143.473** |
| New assets originated or purchased | 130.045 | 97 | 8.051 | 138.193 |
| Transfers to Stage 1 | 4.804 | (4.760) | (44) | - |
| Transfers to Stage 2 | (6.055) | 6.092 | (37) | - |
| Transfers to Stage 3 | (426) | - | 426 | - |
| Changes to models and inputs used for ECL calculations | 18.745 | (218.583) | 47.589 | (152.249) |
| Assets derecognised or repaid | (26.159) | (73.161) | (79.803) | (179.123) |
| As at 31 December | **808.433** | **24.736** | **117.125** | **950.294** |
| Individually assessed | - | - | 24.887 | 24.887 |
| Collectively assessed | 808.433 | 24.736 | 92.238 | 925.407 |
| | **808.433** | **24.736** | **117.125** | **950.294** |

**32. Risk management (continued)**

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Loans and advances to customers – by staging (continued)**

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

- Exposures, regardless of origination date, with more than 30 days past due but less than 90 days past due or otherwise classified as Stage 2 - €10.166.500
- Defaulted exposures and material exposures of more than 90 days past due classified as Stage 3 - €314.782

The following tables disclose the changes in the gross carrying amounts and credit loss allowance for loans and advances to customers carried at amortised cost for the year ended 31 December 2020:

| | 2020 | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **209.655.012** | **288.227** | **206.918** | **210.150.157** |
| New assets originated or purchased | 66.388.226 | 200.492 | 3.762 | 66.592.480 |
| Transfers to Stage 1 | 93.470 | (78.662) | (14.808) | - |
| Transfers to Stage 2 | (9.966.008) | 9.966.008 | - | - |
| Transfers to Stage 3 | (285.535) | (2.803) | 288.338 | - |
| Other movement during the year | 4.712.950 | (205.832) | (5.288) | 4.501.830 |
| Assets derecognised or repaid | (8.505.381) | (930) | (164.140) | (8.670.451) |
| **As at 31 December** | **262.092.734** | **10.166.500** | **314.782** | **272.574.016** |
| Individually assessed | - | 3.317.935 | 314.782 | 3.632.717 |
| Collectively assessed | 262.092.734 | 6.848.565 | - | 268.941.299 |
| **As at 31 December** | **262.092.734** | **10.166.500** | **314.782** | **272.574.016** |

| | 2020 | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **485.070** | **53** | **43.010** | **528.133** |
| New assets originated or purchased | 218.250 | 33 | 1.328 | 219.611 |
| Transfers to Stage 1 | 69 | (8) | (61) | - |
| Transfers to Stage 2 | (25.138) | 25.138 | - | - |
| Transfers to Stage 3 | (612) | - | 612 | - |
| Changes to models and inputs used for ECL calculations | 26.015 | 289.843 | 96.286 | 412.144 |
| Assets derecognised or repaid | (16.175) | (8) | (232) | (16.415) |
| **As at 31 December** | **687.479** | **315.051** | **140.943** | **1.143.473** |
| Individually assessed | - | 314.929 | 139.053 | **453.982** |
| Collectively assessed | 687.479 | 122 | 1.890 | **689.491** |
| **As at 31 December** | **687.479** | **315.051** | **140.943** | **1.143.473** |

**32. Risk management (continued)**

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Gross carrying amount and credit loss allowance movement and staging classification per business line**

The following tables disclose the changes in the gross carrying amounts and credit loss allowance for loans and advances to customers carried at amortised cost for the year ended 31 December 2021:

| **Housing** | **2021** | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **128.943.656** | **1.670.176** | **165.736** | **130.779.568** |
| New assets originated or purchased | 19.003.727 | - | - | 19.003.727 |
| Transfers to Stage 1 | 1.307.155 | (1.307.155) | - | - |
| Transfers to Stage 2 | (1.078.423) | 1.078.423 | - | - |
| Transfers to Stage 3 | (162.091) | - | 162.091 | - |
| Other movement during the year | 2.340.434 | (61.534) | - | 2.278.900 |
| Assets derecognised or repaid | (3.188.106) | (218.471) | (165.736) | (3.572.313) |
| **As at 31 December** | **147.166.352** | **1.161.439** | **162.091** | **148.489.882** |
| Individually assessed | - | - | 162.091 | 162.091 |
| Collectively assessed | 147.166.352 | 1.161.439 | - | 148.327.791 |
| **As at 31 December** | **147.166.352** | **1.161.439** | **162.091** | **148.489.882** |

| **Housing** | **2021** | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **173.147** | **53.374** | **78.761** | **305.282** |
| New assets originated or purchased | 38.117 | - | - | 38.117 |
| Transfers to Stage 1 | 2.874 | (2.874) | - | - |
| Transfers to Stage 2 | (2.022) | 2.022 | - | - |
| Transfers to Stage 3 | (307) | - | 307 | - |
| Changes to models and inputs used for ECL calculations | (41.638) | (34.377) | 10.885 | (65.130) |
| Assets derecognised or repaid | (4.160) | (4.312) | (78.761) | (87.233) |
| **As at 31 December** | **166.011** | **13.833** | **11.192** | **191.036** |
| Individually assessed | - | - | 11.192 | 11.192 |
| Collectively assessed | 166.011 | 13.833 | - | 179.844 |
| **As at 31 December** | **166.011** | **13.833** | **11.192** | **191.036** |

**32. Risk management (continued)**

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Gross carrying amount and credit loss allowance movement and staging classification per business line (continued)**

| **Housing** | **2020** | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **108.223.405** | **284.302** | **163.908** | **108.671.615** |
| New assets originated or purchased | 19.926.389 | 146.204 | - | 20.072.593 |
| Transfers to Stage 1 | 78.663 | (78.663) | - | - |
| Transfers to Stage 2 | (1.523.973) | 1.523.973 | - | - |
| Transfers to Stage 3 | (165.736) | - | 165.736 | - |
| Other movement during the year | 6.135.686 | (205.640) | - | 5.930.046 |
| Assets derecognised or repaid | (3.730.778) | - | (163.908) | (3.894.686) |
| **As at 31 December** | **128.943.656** | **1.670.176** | **165.736** | **130.779.568** |
| Individually assessed | - | 84.740 | 165.736 | 250.476 |
| Collectively assessed | 128.943.656 | 1.585.436 | - | 130.529.092 |
| **As at 31 December** | **128.943.656** | **1.670.176** | **165.736** | **130.779.568** |

| **Housing** | **2020** | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **140.814** | **45** | **-** | **140.859** |
| New assets originated or purchased | 32.590 | 32 | - | 32.622 |
| Transfers to Stage 1 | 8 | (8) | - | - |
| Transfers to Stage 2 | (2.621) | 2.621 | - | - |
| Transfers to Stage 3 | (324) | - | 324 | - |
| Changes to models and inputs used for ECL calculations | 7.230 | 50.684 | 78.437 | 136.351 |
| Assets derecognised or repaid | (4.550) | - | - | (4.550) |
| **As at 31 December** | **173.147** | **53.374** | **78.761** | **305.282** |
| Individually assessed | - | 53.296 | 78.761 | 132.057 |
| Collectively assessed | 173.147 | 78 | - | 173.225 |
| **As at 31 December** | **173.147** | **53.374** | **78.761** | **305.282** |

**32. Risk management (continued)**

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Gross carrying amount and credit loss allowance movement and staging classification per business line (continued)**

| **Consumer** | **2021** | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **12.651.728** | **274.202** | **29.817** | **12.955.747** |
| New assets originated or purchased | 2.926.446 | - | - | 2.926.446 |
| Transfers to Stage 1 | 206.600 | (206.600) | - | - |
| Transfers to Stage 2 | (1.004.006) | 1.004.006 | - | - |
| Transfers to Stage 3 | (11.144) | - | 11.144 | - |
| Other movement during the year | (1.182.948) | (24.782) | (1.924) | (1.209.654) |
| Assets derecognised or repaid | (544.218) | (2.404) | (1.670) | (548.292) |
| **As at 31 December** | **13.042.458** | **1.044.422** | **37.367** | **14.124.247** |
| Individually assessed | - | - | 7 | 7 |
| Collectively assessed | 13.042.458 | 1.044.422 | 37.360 | 14.124.240 |
| **As at 31 December** | **13.042.458** | **1.044.422** | **37.367** | **14.124.247** |

| **Consumer** | **2021** | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **26.723** | **4.883** | **11.549** | **43.155** |
| New assets originated or purchased | 2.232 | - | - | 2.232 |
| Transfers to Stage 1 | 58 | (58) | - | - |
| Transfers to Stage 2 | (1.838) | 1.838 | - | - |
| Transfers to Stage 3 | (5) | - | 5 | - |
| Changes to models and inputs used for ECL calculations | (6.840) | (757) | 17.015 | 9.418 |
| Assets derecognised or repaid | (588) | (1) | (595) | (1.184) |
| **As at 31 December** | **19.742** | **5.905** | **27.974** | **53.621** |
| Individually assessed | - | - | - | - |
| Collectively assessed | 19.742 | 5.905 | 27.974 | 53.621 |
| **As at 31 December** | **19.742** | **5.905** | **27.974** | **53.621** |

## 32. Risk management (continued)

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Gross carrying amount and credit loss allowance movement and staging classification per business line (continued)**

| **Consumer** | **2020** | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **9.629.399** | **3.925** | **25.560** | **9.658.884** |
| New assets originated or purchased | 5.272.095 | 54.081 | 1.953 | 5.328.129 |
| Transfers to Stage 1 | 3.910 | - | (3.910) | - |
| Transfers to Stage 2 | (220.121) | 220.121 | - | - |
| Transfers to Stage 3 | (3.214) | (2.803) | 6.017 | - |
| Other movement during the year | (333.139) | (192) | 198 | (333.133) |
| Assets derecognised or repaid | (1.697.203) | (930) | - | (1.698.133) |
| **As at 31 December** | **12.651.727** | **274.202** | **29.818** | **12.955.747** |
| Individually assessed | - | - | 29.818 | 29.818 |
| Collectively assessed | 12.651.727 | 274.202 | - | 12.925.929 |
| **As at 31 December** | **12.651.727** | **274.202** | **29.818** | **12.955.747** |

| **Consumer** | **2020** | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **11.960** | **8** | **25.560** | **37.528** |
| New assets originated or purchased | 17.019 | 1 | 703 | 17.723 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | (445) | 445 | - | - |
| Transfers to Stage 3 | (7) | - | 7 | - |
| Changes to models and inputs used for ECL calculations | (800) | 4.436 | (14.720) | (11.084) |
| Assets derecognised or repaid | (1.004) | (8) | - | (1.012) |
| **As at 31 December** | **26.723** | **4.882** | **11.550** | **43.155** |
| Individually assessed | - | 4.842 | 9.660 | 14.502 |
| Collectively assessed | 26.723 | 40 | 1.890 | 28.653 |
| **As at 31 December** | **26.723** | **4.882** | **11.550** | **43.155** |

**32. Risk management (continued)**

**<u>Credit risk (continued)</u>**

***Loans and advances to customers (continued)***

**<u>Gross carrying amount and credit loss allowance movement and staging classification per business line (continued)</u>**

| **Business** | **2021** | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **120.497.349** | **8.222.122** | **119.229** | **128.838.700** |
| New assets originated or purchased | 28.398.002 | 359.759 | 28.651 | 28.786.412 |
| Transfers to Stage 1 | 3.389.358 | (3.374.087) | (15.271) | - |
| Transfers to Stage 2 | (1.374.824) | 1.409.434 | (34.610) | - |
| Transfers to Stage 3 | (41.992) | (163.243) | 205.235 | - |
| Other movement during the year | (2.830.581) | (1.099.952) | (24.553) | (3.955.086) |
| Assets derecognised or repaid | (7.228.217) | (1.067.307) | (1.191) | (8.296.715) |
| **As at 31 December** | **140.809.095** | **4.286.726** | **277.490** | **145.373.311** |
| Individually assessed | - | - | 58.547 | 58.547 |
| Collectively assessed | 140.809.095 | 4.286.726 | 218.943 | 145.314.764 |
| **As at 31 December** | **140.809.095** | **4.286.726** | **277.490** | **145.373.311** |

| **Business** | **2021** | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **487.609** | **256.794** | **50.633** | **795.036** |
| New assets originated or purchased | 89.696 | 97 | 8.051 | 97.844 |
| Transfers to Stage 1 | 1.872 | (1.828) | (44) | - |
| Transfers to Stage 2 | (2.195) | 2.232 | (37) | - |
| Transfers to Stage 3 | (114) | - | 114 | - |
| Changes to models and inputs used for ECL calculations | 67.223 | (183.449) | 19.689 | (96.537) |
| Assets derecognised or repaid | (21.411) | (68.848) | (447) | (90.706) |
| **As at 31 December** | **622.680** | **4.998** | **77.959** | **705.637** |
| Individually assessed | - | - | 13.695 | 13.695 |
| Collectively assessed | 622.680 | 4.998 | 64.264 | 691.942 |
| **As at 31 December** | **622.680** | **4.998** | **77.959** | **705.637** |

**32. Risk management (continued)**

**Credit risk (continued)**

***Loans and advances to customers (continued)***

**Gross carrying amount and credit loss allowance movement and staging classification per business line (continued)**

| **Business** | **2020** | | | |
|---|---|---|---|---|
| **Gross carrying amounts** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **91.796.377** | **-** | **17.450** | **91.813.827** |
| New assets originated or purchased | 41.189.742 | 207 | 1.809 | 41.191.758 |
| Transfers to Stage 1 | 10.897 | - | (10.897) | - |
| Transfers to Stage 2 | (8.221.915) | 8.221.915 | - | - |
| Transfers to Stage 3 | (116.586) | - | 116.586 | - |
| Other movement during the year | (1.083.767) | - | (5.487) | (1.089.254) |
| Assets derecognised or repaid | (3.077.399) | - | (232) | (3.077.631) |
| **As at 31 December** | **120.497.349** | **8.222.122** | **119.229** | **128.838.700** |
| Individually assessed | - | 3.233.194 | 119.229 | **3.352.423** |
| Collectively assessed | 120.497.349 | 4.988.928 | - | **125.486.277** |
| **As at 31 December** | **120.497.349** | **8.222.122** | **119.229** | **128.838.700** |

| **Business** | **2020** | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| **As at 1 January** | **332.296** | **-** | **17.450** | **349.746** |
| New assets originated or purchased | 168.641 | - | 625 | 169.266 |
| Transfers to Stage 1 | 61 | - | (61) | - |
| Transfers to Stage 2 | (22.072) | 22.072 | - | - |
| Transfers to Stage 3 | (281) | - | 281 | - |
| Changes to models and inputs used for ECL calculations | 19.585 | 234.722 | 32.570 | 286.877 |
| Assets derecognised or repaid | (10.621) | - | (232) | (10.853) |
| **As at 31 December** | **487.609** | **256.794** | **50.633** | **795.036** |
| Individually assessed | - | 256.790 | 50.633 | 307.423 |
| Collectively assessed | 487.609 | 4 | - | 487.613 |
| **As at 31 December** | **487.609** | **256.794** | **50.633** | **795.036** |

**32. Risk management (continued)**

**Credit risk (continued)**

***Investments at fair value through other comprehensive income***

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | Stage 1 | Total |
| **Gross value** | **€** | **€** | € | € |
| Bonds | **902.075** | **902.075** | 2.108.223 | 2.108.223 |
| **Loss allowance** | | | | |
| Bonds | **-** | **-** | 1.053 | 1.053 |

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | Stage 1 | Total |
| **Loss allowance** | **€** | **€** | € | € |
| **As at 1 January** | **1.053** | **1.053** | 308 | 308 |
| Changes to models and inputs used for ECL calculations | **(664)** | **(664)** | 752 | 752 |
| Assets derecognised or repaid | **(389)** | **(389)** | (7) | (7) |
| **As at 31 December** | **-** | **-** | 1.053 | 1.053 |
| Individually assessed | **-** | **-** | 1.053 | 1.053 |

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | Stage 1 | Total |
| **Gross carrying amount** | **€** | **€** | € | € |
| **As at 1 January** | **2.108.223** | **2.108.223** | 2.216.246 | 2.216.246 |
| Fair value changes | **(7.201)** | **(7.201)** | - | - |
| ECL charge | **1.053** | **1.053** | (1.053) | (1.053) |
| Assets derecognised or repaid | **(1.200.000)** | **(1.200.000)** | (106.970) | (106.970) |
| **As at 31 December** | **902.075** | **902.075** | 2.108.223 | 2.108.223 |
| Individually assessed | **902.075** | **902.075** | 2.108.223 | 2.108.223 |

**32. Risk management (continued)**

**Credit risk (continued)**

***Investments at amortised cost***

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | Stage 1 | Total |
| **Gross value** | **€** | **€** | € | € |
| Bonds | **21.478.650** | **21.478.650** | 25.560.636 | 25.560.636 |
| **Loss allowance** | | | | |
| Bonds | **6.204** | **6.204** | 108.628 | 108.628 |

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | Stage 1 | Total |
| **Loss allowance** | **€** | **€** | € | € |
| **As at 1 January** | **108.628** | **108.628** | 23.443 | 23.443 |
| New assets originated or purchased | **20** | **20** | 5.832 | 5.832 |
| Changes to models and inputs used for ECL calculations | **(82.892)** | **(82.892)** | 79.400 | 79.400 |
| Assets derecognised or repaid | **(19.552)** | **(19.552)** | (47) | (47) |
| **As at 31 December** | **6.204** | **6.204** | 108.628 | 108.628 |
| Individually assessed | **6.204** | **6.204** | 108.628 | 108.628 |

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | Stage 1 | Total |
| **Gross carrying amount** | **€** | **€** | € | € |
| As at 1 January | **25.560.636** | **25.560.636** | 24.988.609 | 24.988.609 |
| New assets originated or purchased | **8.007.015** | **8.007.015** | 12.500.000 | 12.500.000 |
| Accrued interest income net of coupons received | **(239.001)** | **(239.001)** | (254.973) | (254.973) |
| Assets derecognised or repaid | **(11.850.000)** | **(11.850.000)** | (11.673.000) | (11.673.000) |
| **As at 31 December** | **21.478.650** | **21.478.650** | 25.560.636 | 25.560.636 |
| Individually assessed | **21.478.650** | **21.478.650** | 25.560.636 | 25.560.636 |

**32. Risk management (continued)**

**Credit risk (continued)**

***Financial guarantees and commitments***

| | 2021 | | | |
|---|---|---|---|---|
| **Gross exposure** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| Letters of guarantee | **5.141.617** | **14.000** | **-** | **5.155.617** |
| Unutilised trade finance limits | **2.838.046** | **-** | **-** | **2.838.046** |
| Undisbursed loan facilities | **21.351.018** | **24.840** | **-** | **21.375.858** |
| Unutilised overdrafts | **12.197.238** | **136.363** | **1.456** | **12.335.057** |
| | **41.527.919** | **175.203** | **1.456** | **41.704.578** |
| **Credit loss allowance** | | | | |
| Letters of guarantee | **62.608** | **-** | **-** | **62.608** |
| Unutilised trade finance limits | **74.567** | **-** | **-** | **74.567** |
| Undisbursed loan facilities | **-** | **-** | **-** | **-** |
| Unutilised overdrafts | **-** | **-** | **-** | **-** |
| | **137.175** | **-** | **-** | **137.175** |

As described in note 2.8.4 credit loss allowance for loan commitments (undisbursed loan facilities and unutilised overdrafts) is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Bank cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. Up until 2020, the Bank was recognising such credit loss allowances as a separate provision based on the previous ECL methodology. The impact of the change from 2020 to 2021 was not material.

| | 2021 | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| As at 1 January | **57.021** | **214** | **-** | **57.235** |
| New assets originated or purchased | **48.478** | **-** | **-** | **48.478** |
| Changes to models and inputs used for ECL calculations | **37.567** | **(214)** | **-** | **37.353** |
| Assets derecognised or repaid | **(5.891)** | **-** | **-** | **(5.891)** |
| As at 31 December | **137.175** | **-** | **-** | **137.175** |
| Individually assessed | **-** | **-** | **-** | **-** |
| Collectively assessed | **137.175** | **-** | **-** | **137.175** |
| | **137.175** | **-** | **-** | **137.175** |

## 32. Risk management (continued)

**Credit risk (continued)**

***Financial guarantees and commitments (continued)***

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

| | 2020 | | | |
|---|---|---|---|---|
| **Loss allowance** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **Total €** |
| As at 1 January | 43.153 | - | - | 43.153 |
| New assets originated or purchased | 31.084 | - | - | 31.084 |
| Transfers to Stage 2 | (214) | 214 | - | - |
| Changes to models and inputs used for ECL calculations | (12.122) | - | - | (12.122) |
| Assets derecognised or repaid | (4.880) | - | - | (4.880) |
| As at 31 December | 57.021 | 214 | - | 57.235 |
| Individually assessed | - | - | - | - |
| Collectively assessed | 57.021 | 214 | - | 57.235 |
| | 57.021 | 214 | - | 57.235 |

**32. Risk management (continued)**

**Credit risk (continued)**

**Credit quality of loans and advances to customers**

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 models, one for individuals and one for businesses. Both models 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 ≤ 3 | Very low |
| 2 | 3 < x ≤ 5 | Low |
| 3 | 5 < x ≤ 7 | Medium |
| 4 | 7 < x ≤ 9 | High |
| 5 | 9 < x ≤ 10 | Very high |

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

The table below shows the credit quality of performing loans and advances to customers that were classified as Stage 1 based on the Bank's credit rating system.

| | 2021 | 2020 |
|---|---|---|
| | € | € |
| Band 1 | **92.944.087** | 78.153.767 |
| Band 2 | **158.679.316** | 135.579.735 |
| Band 3 | **48.697.236** | 47.428.386 |
| Band 4 | **697.266** | 927.843 |
| | **-** | 3.003 |
| **Gross carrying amount** | **301.017.905** | 262.092.734 |
| Loss allowance on loans and advances to customers | **(808.433)** | (687.479) |
| **Net carrying amount** | **300.209.472** | 261.405.255 |

The table below shows the credit quality of performing loans and advances to customers that were classified as Stage 2 based on the Bank's credit rating system.

| | 2021 | 2020 |
|---|---|---|
| | € | € |
| Band 1 | **1.868.329** | 2.612.148 |
| Band 2 | **3.656.733** | 4.307.610 |
| Band 3 | **967.525** | 3.246.742 |
| Band 4 | **-** | - |
| Band 5 | **-** | - |
| **Gross carrying amount** | **6.492.587** | 10.166.500 |
| Loss allowance on loans and advances to customers | **(24.736)** | (315.051) |
| **Net carrying amount** | **6.467.851** | 9.851.449 |

**32. Risk management (continued)**

**Credit risk (continued)**

**Credit quality of loans and advances to customers (continued)**

Facilities shown as Stage 2 as at 31 December 2021 represent 32 loan facilities with actual arrears amounting to €45.321, 4 overdraft facilities with arrears amounting to €38.842 and 1375 current accounts with excess amount of €35.634 (2020: 25 loan facilities with actual arrears amounting to €23.414, 31 overdraft facilities with arrears amounting to €58.508 and 980 current accounts with excess amounting to €22.102).

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.

**Collateral on performing loans and advances**

The fair value of collateral held by the Bank (restricted to legal mortgage value) in respect of performing loans and advances to customers as at 31 December 2021 amounted to €440.452.787 (2020: €393.095.353).

As at 31 December 2021, a percentage of 84% of the total exposures of the Bank arising from loans and advances to customers was overcollateralized (16% under-collateralized).

The carrying amount of loans and advances to customers for which no loss allowance was recognised due to the collateral held as at 31 December 2021 was €138.070.792.

**Credit ratings from independent rating agencies**

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

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| BBB- | **79.456.960** | 41.998.312 |
| | **79.456.960** | 41.998.312 |

Placements with banks are analysed in accordance with Standard & Poor’s (‘S&P’) rating agency as follows:

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| AAA to A- | **4.263.567** | 3.006.482 |
| BBB+ to BBB- | **1.548.063** | 1.498.690 |
| Unrated | **107.001** | 52.438 |
| | **5.918.631** | 4.557.610 |

**32. Risk management (continued)**

**Credit risk (continued)**

**Credit ratings from independent rating agencies (continued)**

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

| | 2021 € | 2020 € |
|---|---|---|
| AAA to A- | **16.372.125** | 20.396.891 |
| BBB+ to BBB- | **6.002.396** | 7.162.287 |
| | **22.374.521** | 27.559.178 |
| *Issued by:* | | |
| Cyprus government | **1.499.980** | 2.494.133 |
| Other governments | **5.844.308** | 6.489.440 |
| Credit institutions | **5.247.625** | 6.976.255 |
| Other financial corporations | **4.815.651** | 4.330.191 |
| Non-financial corporations | **4.966.957** | 7.269.159 |
| | **22.374.521** | 27.559.178 |
| *Classified as:* | | |
| Investments at fair value through other comprehensive income | **902.075** | 2.107.170 |
| Investments at amortised cost | **21.472.446** | 25.452.008 |
| | **22.374.521** | 27.559.178 |

**32. Risk management (continued)**

**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 table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's financial assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates. Financial assets and liabilities at fair value through profit or loss held by the Bank can be disposed of at any time due to their nature. Therefore, they do not subject the Bank to any significant interest rate risk. As a result, they have been classified in the "up to 1 month" category for the interest rate risk table below.

**As at 31 December 2021**

| | Up to 1 month € | 1-3 months € | 3-6 months € | 6-12 months € | Over 1 year € | Non-interest bearing € | Total € |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 86.440.907 | - | - | - | - | - | 86.440.907 |
| Placements with banks | 5.918.631 | - | - | - | - | - | 5.918.631 |
| Loans and advances to customers | 98.025.809 | 67.892.723 | 137.499.900 | 230.077 | 3.388.637 | - | 307.037.146 |
| Investments at fair value through other comprehensive income | 902.075 | - | - | - | - | 139.123 | 1.041.198 |
| Investments at amortised cost | 2.426.935 | 1.256.831 | 1.007.965 | 764.698 | 16.016.016 | - | 21.472.445 |
| **Total financial assets** | **193.714.357** | **69.149.554** | **138.507.865** | **994.775** | **19.404.653** | **139.123** | **421.910.327** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Customer Deposits | 291.770.973 | 20.953.887 | 22.069.200 | 31.104.145 | 3.281.277 | - | 369.179.482 |
| Funding from Central Banks | 13.131.981 | - | - | - | - | - | 13.131.981 |
| Other borrowings | - | 6.990.642 | - | - | - | - | 6.990.642 |
| Lease liabilities | - | - | - | -- | 784.492 | - | 784.492 |
| **Total financial liabilities** | **304.902.954** | **27.944.529** | **22.069.200** | **31.104.145** | **4.065.769** | **-** | **390.086.597** |
| **Net interest sensitivity gap** | **(111.188.597)** | **41.205.025** | **116.438.665** | **(30.109.370)** | **15.338.884** | **139.123** | **31.823.730** |
| **Off balance sheet capital and commitments** | - | - | - | - | - | **42.004.578** | **42.004.578** |

## 32. Risk management (continued)

### Interest rate risk (continued)

**As at 31 December 2020**

| | Up to 1 month € | 1-3 months € | 3-6 months € | 6-12 months € | Over 1 year € | Non-interest bearing € | Total € |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 46.889.442 | - | - | - | - | - | 46.889.442 |
| Placements with banks | 4.557.610 | - | - | - | - | - | 4.557.610 |
| Loans and advances to customers | 93.472.438 | 54.761.372 | 117.695.006 | 146.077 | 5.355.650 | - | 271.430.543 |
| Investments at fair value through other comprehensive income | 2.107.170 | - | - | - | - | 80.261 | 2.187.431 |
| Investments at amortised cost | 499.965 | 2.000.000 | 1.526.308 | 1.960.105 | 19.465.630 | | 25.452.008 |
| **Total financial assets** | **147.526.625** | **56.761.372** | **119.221.314** | **2.106.182** | **24.821.280** | **80.261** | **350.517.034** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Customer Deposits | 229.945.650 | 17.607.492 | 20.632.163 | 23.337.785 | 4.737.519 | - | 296.260.609 |
| Funding from Central Banks | 18.000.000 | - | - | - | - | - | 18.000.000 |
| Other Borrowings | - | 8.124.749 | - | - | - | - | 8.124.749 |
| Lease liabilities | - | - | - | - | 989.645 | - | 989.645 |
| **Total financial liabilities** | **247.945.650** | **25.732.241** | **20.632.163** | **23.337.785** | **5.727.164** | **-** | **323.375.003** |
| **Net interest sensitivity gap** | **(100.419.025)** | **31.029.131** | **98.589.151** | **(21.231.603)** | **19.094.116** | **80.261** | **27.142.031** |
| **Off balance sheet capital and commitments** | **-** | **-** | **-** | **-** | **-** | **43.996.484** | **43.996.484** |

A parallel increase in market interest rates across all currencies within a 12 month period by 100 basis points would result in a decrease in the profit before tax by €18.668 (2020: increase in the loss before tax €97.135) A parallel decrease in market interest rates across all currencies within a 12 month period by 100 basis points would result in a increase in profit after tax by €18.668 (2020: decrease in the loss before tax €97.135).

### 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 14 for such investments exposed to market price risk).

The Bank maintains a Hold to Collect and Sell ('HTCS') portfolio, amounting to 8% of the total investments portfolio held by the Treasury department. The 95% 1-year Value at Risk ('VaR') of the HTCS portfolio amounts to €7.521 as at 31 December 2021 (2020: €16.498), and as a result, the market risk of the HTCS portfolio is considered low.

The Bank is also exposed to equity securities price risk because of investments held by the Bank and classified as FVOCI (unlisted). The Bank is not exposed to commodity price risk. No sensitivity analysis is presented as any reasonable change in the fair value of the equity instruments would not result in a material impact on post-tax profit in 2021.

## 32. Risk management (continued)

### Currency risk

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

As the Bank broadly maintains a matching of assets and liabilities in other currencies, there are no material 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.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2021 and 2020. Included in the table are the Bank's assets and liabilities at carrying amounts as well as off-balance sheet instruments, categorised by currency.

| 2021 | EUR € | USD € | GBP € | Other € | Total € |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central Bank | **86.357.505** | **28.472** | **54.930** | **-** | **86.440.907** |
| Placements with banks | **2.004.231** | **786.945** | **2.959.954** | **167.501** | **5.918.631** |
| Loans and advances to customers | **307.037.146** | **-** | **-** | **-** | **307.037.146** |
| Investments at fair value through other comprehensive income | **955.310** | **85.888** | **-** | **-** | **1.041.198** |
| Investments at amortised cost | **21.472.446** | **-** | **-** | **-** | **21.472.446** |
| Other assets | **3.364.564** | **-** | **-** | **-** | **3.364.564** |
| Property and equipment | **6.093.957** | **-** | **-** | **-** | **6.093.957** |
| Intangible assets | **1.071.522** | **-** | **-** | **-** | **1.071.522** |
| **Total assets** | **428.356.681** | **901.305** | **3.014.884** | **167.501** | **432.440.371** |
| **LIABILITIES** | | | | | |
| Customer deposits | **365.282.544** | **904.623** | **2.992.315** | **-** | **369.179.482** |
| Funding from central banks | **13.131.981** | **-** | **-** | **-** | **13.131.981** |
| Other borrowings | **6.990.642** | **-** | **-** | **-** | **6.990.642** |
| Lease liabilities | **784.492** | **-** | **-** | **-** | **784.492** |
| Provisions and other liabilities | **3.789.849** | **-** | **-** | **-** | **3.789.849** |
| Total liabilities | **389.979.508** | **904.623** | **2.992.315** | **-** | **393.876.446** |
| Net-currency position | **38.377.173** | **(3.318)** | **22.569** | **167.501** | **38.563.925** |
| Off-balance sheet & capital commitments | **42.004.578** | **-** | **-** | **-** | **42.004.578** |

## 32. Risk management (continued)

### Currency risk (continued)

| 2020 | EUR € | USD € | GBP € | Other € | Total € |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central Bank | **46.801.295** | **28.682** | **59.465** | **-** | **46.889.442** |
| Placements with banks | **2.219.568** | **52.785** | **2.144.873** | **140.384** | **4.557.610** |
| Loans and advances to customers | **271.430.543** | **-** | **-** | **-** | **271.430.543** |
| Investments at fair value through other comprehensive income | **2.107.170** | **80.261** | **-** | **-** | **2.187.431** |
| Investments at amortised cost | **25.452.008** | **-** | **-** | **-** | **25.452.008** |
| Other assets | **3.236.812** | **-** | **-** | **-** | **3.236.812** |
| Property and equipment | **6.595.243** | **-** | **-** | **-** | **6.595.243** |
| Intangible assets | **779.442** | **-** | **-** | **-** | **779.442** |
| **Total assets** | **358.622.081** | **161.728** | **2.204.338** | **140.384** | **361.128.531** |
| **LIABILITIES** | | | | | |
| Customer deposits | **293.843.572** | **211.738** | **2.205.299** | **-** | **296.260.609** |
| Funding from central banks | **18.000.000** | **-** | **-** | **-** | **18.000.000** |
| Other borrowings | **8.124.749** | **-** | **-** | **-** | **8.124.749** |
| Lease liabilities | **989.645** | **-** | **-** | **-** | **989.645** |
| Provisions and other liabilities | **2.595.690** | **65.595** | **22.132** | **-** | **2.683.417** |
| **Total liabilities** | **323.553.656** | **277.333** | **2.227.431** | **-** | **326.058.420** |
| Net-currency position | **35.068.425** | **(115.605)** | **(23.093)** | **140.384** | **35.070.111** |
| Off-balance sheet & capital commitments | **43.996.484** | **-** | **-** | **-** | **43.996.484** |

No sensitivity is presented as any reasonable possible change in foreign exchange rates with all other variables held constant would not have a significant impact on the Bank's post tax profit.

**32. Risk management (continued)**

**Liquidity risk**

Liquidity risk is the risk that the Bank is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Bank may have to raise funding at higher cost or sell assets at a discount.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

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

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

*Monitoring process*

The Treasury department monitors cash flows and highly liquid assets on a daily basis, in addition to the supervisory liquidity ratios as described further below, to ensure the uninterrupted operation of the Bank's activities.

*Main sources of funding*

During 2021, 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 2021, central bank principal funding amounted to €13.350.000 in the form of TLTRO III (2020: €18.000.000).

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 €13.650.000 (book value of €14.104.345) as at 31 December 2021 (2020: €19.650.000 with a book value of €5.828.568). These assets declared are dedicated for purposes of securing TLTRO III. The available credit line as communicated by CBC as at 31 December 2021 was €3.166.553 (2020: €1.885.142). The total securities that meet the eligibility criteria to be placed as collateral amount to a nominal value of €19.250.000 as at 31 December 2021.

*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.

**32. Risk management (continued)**

**Liquidity risk (continued)**

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.

| **2021** | **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 | **600.730** | **600.730** | **301.345** | **301.345** |
| Debt investments at amortised cost | **13.503.615** | **13.864.670** | **7.968.831** | **8.034.946** |
| | **14.104.345** | **14.465.400** | **8.270.176** | **8.336.291** |
| Of which Central Bank eligible for encumbrance | **14.104.345** | **14.465.400** | **5.828.568** | **5.869.127** |
| **2020** | | | | |
| Debt investments at FVOCI | 602.688 | 602.688 | 1.504.482 | 1.504.482 |
| Debt investments at amortised cost | 18.440.831 | 19.063.773 | 7.011.177 | 7.159.591 |
| | 19.043.519 | 19.666.461 | 8.515.659 | 8.664.073 |
| Of which Central Bank eligible for encumbrance | 19.043.519 | 19.666.461 | 5.174.951 | 5.242.256 |

*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 2021 and 2020 the minimum requirement was 100%.

The LCR ratio was as follows:

| | **2021 %** | 2020 % |
|---|---|---|
| End of the reporting period | **343,48** | 288,08 |
| Average for the year | **348,17** | 463,45 |
| Maximum ratio for the year | **395,84** | 628,46 |
| Minimum ratio for the year | **286,79** | 288,08 |

As at 31 December 2021 and during the year, the Bank was in full compliance with the above regulatory liquidity requirements.

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 2021, the Bank's NSFR was at 148% (2020: 121%).

## 32. Risk management (continued)

### Liquidity risk (continued)

### 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 |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| **2021** | | | | | | | |
| Customer deposits | **369.179.482** | **369.299.401** | **288.278.097** | **21.074.298** | **53.606.216** | **6.340.790** | **-** |
| Funding from central banks | **13.131.981** | **13.067.456** | **-** | **-** | **13.067.456** | **-** | **-** |
| Other borrowings | **6.990.642** | **7.143.417** | **413.179** | **-** | **841.578** | **3.578.928** | **2.309.732** |
| Lease liabilities | **784.492** | **902.400** | **17.200** | **34.400** | **184.100** | **666.700** | **-** |
| Provisions and other liabilities | **3.789.849** | **3.789.849** | **2.315.725** | **107.174** | **378.621** | **137.175** | **851.154** |
| | **393.876.446** | **394.202.523** | **291.024.201** | **21.215.872** | **68.077.971** | **10.723.593** | **3.160.886** |
| **2020** | | | | | | | |
| Customer deposits | 296.260.609 | 296.336.474 | 223.866.060 | 17.688.159 | 44.370.366 | 10.411.889 | - |
| Funding from central banks | 18.000.000 | 18.000.000 | - | - | 4.650.000 | 13.350.000 | - |
| Other borrowings | 8.124.749 | 8.333.340 | 13.250 | - | 624.769 | 3.300.586 | 4.394.735 |
| Lease liabilities | 989.645 | 1.133.400 | 17.200 | 34.400 | 179.400 | 902.400 | - |
| Provisions and other liabilities | 2.683.417 | 2.683.417 | 1.438.553 | 128.469 | 315.025 | 57.235 | 744.135 |
| | 326.058.420 | 326.486.631 | 225.335.063 | 17.851.028 | 50.139.560 | 28.022.110 | 5.138.870 |

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.

## 32. Risk management (continued)

### Liquidity risk (continued)

### Analysis of contingent liabilities and commitments by remaining contractual maturity

| | Contractual cash flows<br>€ | On demand and up to 1 month<br>€ | Between 1 and 3 months<br>€ | Between 3 months and 1 year<br>€ | Between 1 and 5 years<br>€ | More than 5 years<br>€ |
|---|---|---|---|---|---|---|
| **2021** | | | | | | |
| Letters of guarantee | **5.155.617** | **5.155.617** | **-** | **-** | **-** | **-** |
| Letters of credit | **-** | **-** | **-** | **-** | **-** | **-** |
| Unutilised trade finance limits | **2.838.046** | **2.838.046** | **-** | **-** | **-** | **-** |
| Undisbursed loan facilities | **21.375.858** | **21.375.858** | **-** | **-** | **-** | **-** |
| Undrawn overdraft facilities | **12.335.057** | **12.335.057** | **-** | **-** | **-** | **-** |
| | **41.704.578** | **41.704.578** | **-** | **-** | **-** | **-** |
| **2020** | | | | | | |
| Letters of guarantee | 3.208.261 | 3.208.261 | - | - | - | - |
| Letters of credit | 89.111 | - | - | 89.111 | - | - |
| Unutilised trade finance limits | 4.021.636 | 4.021.636 | - | - | - | - |
| Undisbursed loan facilities | 25.103.367 | 25.103.367 | - | - | - | - |
| Undrawn overdraft facilities | 11.631.344 | 11.631.344 | - | - | - | - |
| | 44.053.719 | 43.964.608 | - | 89.111 | - | - |

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

Comparative figures of letters of guaranteebeen restated to present the analysis in a more representative way consistent with current year. The restatement did not have any impact on the rest of the notes to the financial statements.

**32. Risk management (continued)**

**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 and is continuously adjusted to incorporate best practices.

**Regulatory risk**

The Bank's operations are supervised by the CBC. Future changes in the legal or regulatory obligations as communicated by the 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 with decline in NPE levels in banking sector. Despite the overall positive outlook and progress in the Cyprus banking sector, the challenges for the banks remain, with the high level of cost to income ratios and the pressure in Interest income from the low interest environment combined with the pressure of external factors such as COVID-19 pandemic and the Russia/Ukraine conflict increasing the challanges.

Reduction of non-performing loans in the banking sector over the last few years was mostly due to transfer or sale of non-performing loan portfolios by banks to credit-acquiring companies.

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. Further 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.

## 33. Capital management

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

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

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

The amendments that came into effect on 28 June 2021 are in addition to those introduced in June 2020 through Regulation (EU) 2020/873, which among other brought forward certain CRR II changes in light of the COVID-19 pandemic. The main adjustments of Regulation (EU) 2020/873 that had an impact on the Group's capital ratio relate to i) the acceleration of the CRR II provision for the implementation of the new SME discount factor (lower RWAs), ii) extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1 allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets and phasing in this starting from 2022 and iii) advancing the application of prudential treatment of software assets as amended by CRR II (which came into force in December 2020).

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 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.

## 33. Capital management (continued)

The Bank is in the process of preparation of its ICAAP / ILAAP report for the year 2021. The Bank has received its latest SREP communication in December 2020 which noted that the CBC has adopted, in line with European Banking Authority's statement of 22 April 2020, a pragmatic approach towards SREP for the 2020 cycle, which focuses on the ability of the Bank to handle the challenges of COVID-19 crisis and its impact on their current and prospective risk profile. Furthermore, it noted that previous SREP decisions as communicated by CBC in January 2020 are not superseded nor amended and remain in force. Namely the latest SREP requirement has been set at 4,5% (2020: 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.

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 2021, 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 2021** | As restated 31 December 2020 |
|---|---|---|
| | **€** | € |
| Common Equity Tier 1 capital | **37.489.005** | 34.282.139 |
| Additional Tier 1 capital | **-** | - |
| Tier 1 capital | **37.489.005** | 34.282.139 |
| Tier 2 capital | **-** | - |
| **Total Regulatory Capital** | **37.489.005** | 34.282.139 |
| Common Equity Tier 1 ratio | **18,04%** | 18,71% |
| Tier 1 ratio | **18,04%** | 18,71% |
| **Total capital ratio** | **18,04%** | 18.71% |

## 33. Capital management (continued)

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

As a response to COVID-19 impact, concessions have been announced by the European Central Bank with regards to the capital adequacy and liquidity ratios whereby banks are temporarily able to operate below the Pillar II (‘P2G’) equity buffer, CCB, Countercyclical Capital Buffer (‘CCyB’), as well as, the liquidity coverage ratio (‘LCR’). In addition, it was decided to early implement the change resulting from the adoption of the CRDV on Pillar II (‘P2R’) supervisory requirements, allowing it to be covered by additional Tier 1 funds (‘AT1’) and Tier 2 funds and not only by Common Equity Tier 1 funds. As a result, the regulatory capital requirement of the Bank up until 31 December 2022 is at 15%.

## 34. 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 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 or assets 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 2021 and 2020 are listed below:

| **Name / relationship** | **Percentage of Share Capital in the parent company** | |
|---|---|---|
| | **Date of signing this report and 31 December 2021** | 31 December 2020 |
| | **%** | % |
| 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** |

### 34. 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 2021 and 2020 were as follows:

| **Name** | **31 December 2021 %** | 31 December 2020 % |
|---|---|---|
| Ioannis Loizou | **3,40** | 3,40 |
| Bo Sievert Larsson | **41,00** | 41,00 |
| Charidemos Theocharides | **0,23** | 0,23 |
| Charalambos Panayiotou | **1,39** | 1,39 |

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

The Bank is not ultimately controlled by any party however Mr. Bo Sievert Larsson holds 41% (2020: 41%) in the Bank through his direct and indirect shareholdings. Further, the Sievert Larsson Scholarship Foundation, founded by Mr. Bo Sievert Larsson, indirectly holds 38,6% (2020: 38,6%) of the Company's issued share capital. The effective shareholding of Mr. Bo Sievert Larsson and the Sievert Larsson Scholarship Foundation is 79,6% (2020: 79,6%).

| | **2021 €** | 2020 € |
|---|---|---|
| **Deposits** | | |
| Members of the Board of Directors and key management personnel | **3.286.885** | 1.289.824 |
| Parent company | **1.984** | 18.433 |
| Shareholders with significant influence | **4.022.948** | 3.757.702 |
| Other indirect shareholders | **211.136** | 410.427 |
| Other related parties (including connected parties of directors) | **1.227.119** | 1.252.434 |
| | **8.750.072** | 6.728.820 |
| Interest expense | **4.285** | 6.536 |

| | **2021 €** | 2020 € |
|---|---|---|
| **Loans and advances** | | |
| Members of the Board of Directors and key management personnel | **283.179** | 480.605 |
| Other related parties | **32** | - |
| | **283.211** | 480.605 |
| Interest income | **8.226** | 9.828 |

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. Key management personnel consists only of executive directors.

**34. Related party transactions (continued)**

The amount of deposits placed by shareholders with significant influence includes deposits from Ancoria Insurance Public Ltd (indirect shareholder with significant influence) in the amount of €4.020.916 (2020: €3.755.649).

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 €20.000 (2020: €243.573).

During 2021, the Bank recognised a total income amounting to €16.560 (2020: €16.560) as a result of a use of space agreement with Ancoria Insurance Public Ltd. This amount is shown under 'Other income' line.

In addition, the Bank operates a defined contribution scheme which provides for employer's contributions of 6% on the employees' gross salary. This scheme is in the form of a pension plan under Ancoria Insurance Public Ltd, an indirect shareholder with significant influence over of the Bank. The arrangement does not include any fees or costs charged by Ancoria Insurance Public Limited directly to the Bank but rather such costs are borne by the plan members.

**Fees and emoluments of Directors and key management personnel**

| | **2021** | 2020 |
|---|---|---|
| | **€** | € |
| *Non-executives* | | |
| Membership fees (*Note 8*) | **133.346** | 147.249 |
| *Executives* | | |
| Salaries and other short-term benefits | **327.850** | 327.850 |
| Employer's contributions to pension plan | **29.759** | 9.583 |
| Other employer's contributions | **26.821** | 24.988 |
| | **384.430** | 362.421 |
| | **517.776** | 509.670 |

The Bank in defining its key management personnel considers only the two Executive directors as such. 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 18*)

| | | **2021** | 2020 |
|---|---|---|---|
| **Name** | **Nature of transactions** | **€** | € |
| Ancoria Investments Plc | Current account balance | **260.701** | **226.691** |

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.

## 35. Operating environment

Economic activity recovered strongly in 2021, driven by domestic demand in the first half of 2021 and by external demand in the second half of 2021 reflecting a strong recovery in tourist activity in the period. Government support to businesses and households remained substantial in the year but the budget deficit narrowed substantially driven by increased revenues. Inflation accelerated in the second half of 2021 and unemployment remained largely unchanged from the previous year. Over the medium term, prospects remain positive aided also by the Recovery and Resilience Fund of Next Generation EU, but the crisis over Ukraine has increased downside risks.

On 24 February 2022, Russia launched a military operation in Ukraine. Many governments are taking increasingly stringent measures against Russia and Belarus (sanctions). These measures have already slowed down the economies both in Cyprus but globally as well with the potential of having wider impacts on the respective economies as the measures persist for a greater period of time. Energy prices have risen and are expected to remain elevated for longer. Inflationary pressures that were building before the outbreak of the Ukrainian crisis, have escalated and central banks have started their tightening cycles.

The crisis in Ukraine is expected to have an adverse impact on the Cypriot economy, mainly due to the negative impact on the tourism and professional services sectors, increasing energy prices resulting in inflationary pressures, and disruptions to global supply chains. The impact on the Cypriot economy remains uncertain and will depend on the duration and severity of the crisis.

The COVID-19 pandemic had a significant impact on the economy with real GDP dropping by 5.0% in 2020 compared with an average drop of 6.4% in the Eurozone. The recovery in 2021 was relatively strong with real GDP rising by 5.5% according to the Cyprus Statistical Service, fully recovering the lost output from the previous year. Tourist arrivals recovered strongly in the year, particularly in the second half. On average for 2021, tourist arrivals were approximately 50% of 2019 levels, but reached approximately 70% of 2019 levels in the second half of the year.

The unemployment rate has been declining since its peak in 2014, to 7.7% in 2020 and to 7.8% in the first three quarters of 2021. The labour market is gradually tightening because employment volumes are rising faster than increases in the labour force.

Cyprus is an exports oriented, services-based economy, driven by tourism, shipping and professional and financial services. Total services are a significant contributor to the total gross value added. The primary and secondary sectors are relatively small. This means that Cyprus is also a large importer of goods, relative to the size of the economy and tends to have large trade deficits which are offset by large services surpluses in the current account.

General government debt remained almost unchanged in 2021 and the debt-to-GDP ratio declined from 115% at end-2020 to 103.9% at end-2021.

Sovereign ratings

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

Most recently in March 2022, Fitch Ratings and S&P Global Ratings affirmed Cyprus' Long-Term Issuer Default rating at investment grade at BBB- since November 2018 and a stable outlook stressing that despite the Ukrainian crisis and economic sanctions against Russia, the medium-term outlook for the Cyprus economy remains strong. The stable outlook reflects the view that despite Cyprus' exposure to Russia through its tourism and investment linkages, near-term risks are mitigated by a strengthened government fiscal position, and continued normalisation of spending after the pandemic shock. Meanwhile, medium-term growth prospects remain positive on the back of the government's Recovery and Resilience Plan (RRP).

## 36. 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 32).

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

| | 2021 | 2020 |
|---|---|---|
| | € | € |
| **Contingent liabilities** | | |
| Letters of guarantee | **5.155.617** | 3.208.261 |
| Letters of credit | **-** | 89.111 |
| Unutilised trade finance limits | **2.838.046** | 4.021.636 |
| | **7.993.663** | 7.319.008 |
| **Commitments** | | |
| Undisbursed loan facilities | **21.375.858** | 25.103.367 |
| Undrawn overdraft facilities | **12.335.057** | 11.631.344 |
| | **33.710.915** | 36.734.711 |
| | **41.704.578** | 44.053.719 |

**Capital commitments**

As at 31 December 2021, there were no significant commitments for contracted capital expenditures of the Bank other than a new lease agreement for office space with commencement day in January 2022 for a total amount payable of €300.000 over a period of 5 years (€60.000 per annum payable in advance at the beginning of each year).

**Legal proceedings**

As at 31 December 2021 and 2020, there were no pending litigation, claims or assessments against the Bank.

**Other exposures**

Indirect tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. While there are risks that these tax positions and interpretations taken by the Bank could be potentially challenged by the tax authorities, the Bank currently estimates that they can be sustained.

## 37. Events after the reporting date

Russia's invasion of Ukraine on 24 February 2022 has triggered disruptions and uncertainties in the markets and the global economy. The EU, UK and the U.S., in a coordinated effort joined by several other countries, imposed sanctions against Russia, Belarus and certain regions of Ukraine and certain Russian entities and nationals. The Bank is carefully monitoring the developments and is taking measures to comply with all applicable laws, including sanctions and export controls as they evolve.

Although the Bank has no direct exposure and very limited indirect exposure to the region, the invasion of Russia to Ukraine could result in prolonged/elevated geopolitical instability, trade restrictions, disruptions to global supply chains, increases in energy prices with flow-on global inflationary impacts, and a potential negative impact in the domestic, regional and global economy. The potential impacts from the Russian invasion of Ukraine remain uncertain, including but not limited to, economic conditions, asset valuations, interest rate expectations and exchange rates.

The Bank will continue to closely monitor related effects on its financial position, including estimated direct and indirect impacts on expected credit loss calculations and on fair value measurement of assets, liabilities and off-balance sheet exposures as well as impact on financial performance. As of the date of approval of these financial statements there was no significant impact on the fair values of the assets and liabilities or any other significant matters to be disclosed.

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

**Independent auditor's report on pages 101 to 109**

# *Independent Auditor's Report*

**To the Members of Ancoria Bank Limited**

## *Report on the Audit of the Financial Statements*

### *Our opinion*

In our opinion, the accompanying financial statements of Ancoria Bank Limited (the "Bank") give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

**What we have audited**

We have audited the financial statements which are presented in pages 8 to 100 and comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit and loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We remained independent of the Bank throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

*PricewaterhouseCoopers Ltd, City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus*
*P O Box 53034, CY-3300 Limassol, Cyprus*
*T: +357 25 - 555 000, F:+357 - 25 555 001, www.pwc.com.cy*

## Our audit approach

### *Overview*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

| | |
|---|---|
| ***Materiality*** | Overall materiality: €339.000, which represents approximately 0,9% of the Bank's adjusted net assets (as presented on the statement of financial position by line item 'total equity' adjusted by deducting the line item 'Intangible assets' and the 'reserves arising from revaluation of properties and other non CET1 eligible reserves') |
| ***Key audit matters*** | We have identified the following key audit matters:<br>- Credit allowance provision on loans and advances to customers and off-balance sheet instruments within the scope of the Expected Credit Loss model in line with the requirements of IFRS 9 "Financial Instruments"<br>- Revaluation of owner-occupied property to fair value |

### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall materiality*** | € 339.000 |
| ***How we determined it*** | approximately 0,9% of the Bank's adjusted net assets |
| ***Rationale for the materiality benchmark applied*** | We chose the adjusted net assets as the benchmark, because in our view, it is the best approximation to the Bank's Common Equity Tier 1 capital which is the most relevant performance measure to the stakeholders of the Bank and is a generally accepted benchmark. We chose 0,9% which is within the range of acceptable quantitative materiality thresholds in auditing standards. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €16.950 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Credit allowance provision on loans and advances to customers and off-balance sheet instruments within the scope of the Expected Credit Loss model in line with the requirements of IFRS 9 "Financial Instruments"***<br><br>We focused on this area because the models implemented and used by the Bank to calculate the Expected Credit Losses ("ECL") on loans and advances to customers and off-balance sheet instruments as at 31 December 2021 involve significant judgement and estimates which could give rise to material misstatement.<br><br>Loans and advances to customers comprise a large portion of the Bank's total assets and in view of the significance of the judgments and estimates involved in estimating the ECL on loans and advances to customers for the year ended 31 December 2021, we have considered this to be a Key Audit Matter.<br><br>Expected credit losses are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that are individually significant, or which meet specific criteria determined by management. | We developed an understanding of the models used by the Bank and evaluated management's implementation process of these models for the calculation of ECL.<br><br>We understood the overall control framework around the calculation of ECL on loans and advances to customers and off-balance sheet instruments within the scope of the Expected Credit Loss model in line with the requirements of IFRS 9 "Financial Instruments". We further reviewed the design and tested the operating effectiveness of a sample of key controls around the process of loan performance monitoring.<br><br>We assessed the appropriateness of the key assumptions used in the methodologies and models developed by the Bank and their compliance with the requirements of IFRS 9.<br><br>We reviewed the Bank's policy for staging of loans and advances to customers and off-balance sheet financial instruments to ensure that the Bank applies the three-stage approach for impairment and that changes in credit quality since initial recognition are appropriately monitored and the correct staging classification is applied. We tested on a sample basis that management correctly classified loans and advances to customers and off-balance sheet financial instruments into the appropriate stages by reference to the criteria and triggers adopted by management to classify exposures in appropriate stages. |

| | |
|---|---|
| We determined this to be a key audit matter due to the significant judgement exercised by management and the complexity in making estimate including the assumptions required to build the models, the allocation of loans and advances to customers and off-balance sheet exposures within Stages 1, 2 or 3, identifying "Significant Increase in Credit Risk" and the inputs, assumptions and probability weights assigned to multiple economic scenarios used by the Bank.<br><br>Note 2 "Summary of significant accounting policies", Note 3 "Significant accounting estimates and judgments", Note 13 "Loans and advances to customers" and Note 36 "Contingent liabilities, capital commitments and off-balance sheet financing" to the financial statements provide detailed information on the estimation of ECL on loans and advances to customers and off-balance sheet instruments as at 31 December 2021.<br><br>Note 13 "Loans and advances to customers", Note 36 "Contingent liabilities, capital commitments and off-balance sheet financing" and Note 32 "Risk management" to the financial statements provide detailed information on credit risk management practices, credit risk exposures, as well as qualitative and quantitative information arising from expected credit losses on loans and advances to customers and off-balance sheet instruments. | We tested, with the assistance of PwC credit risk experts, the assumptions, inputs and formulas used in the calculation of collective ECL. This included considering the appropriateness of model design and challenging the assumptions used (e.g., Exposure at Default, Loss Given Default and Probability of Default), and the appropriateness of the segmentation employed. We built an ECL calculator "challenger model", on the basis of which the ECL estimate was calculated and compared against the Bank's own calculation.<br><br>We evaluated the Bank's individual assessments for a sample of Stage 3 exposures for compliance with IFRS 9 requirements by assessing the appropriateness of the key assumptions used based on the Bank's methodology.<br><br>We also considered, with the assistance of PwC credit risk experts, the reasonableness of management's optimistic, baseline and pessimistic assumptions in conjunction with the scenario weightings applied by management and the appropriateness of the macroeconomic scenarios applied by the Bank.<br><br>We evaluated the appropriateness of the Bank's disclosures particularly in relation to significant judgements and estimates.<br><br>We concluded that the methodologies and judgments used by management in determining the ECL charge were reasonable, that the ECL provisions recognised were reasonable and the disclosures made in relation to these matters in the financial statements were appropriate. |

| | |
|---|---|
| ***Revaluation of owner-occupied property to fair value***<br><br>As at 31 December 2021 the owner-occupied property (including land) amounts to €4.100.000.<br><br>Based on the accounting policy chosen by the Bank, the owner-occupied property is measured at fair value based on the provisions of IAS 16 Property, Plant and Equipment for assets carried using the revaluation model and in line with the provisions of IFRS 13 Fair Value Measurement.<br><br>During the year 2021, in view of limited availability of comparable transactions for the determination of the valuation of the Bank's owner-occupied property in Limassol, the Bank engaged two real estate valuers to determine the fair value of its owner property and has adopted the average of these two valuations in determining the fair value of the property as of 31 December 2021. On the basis of these valuations the Bank also revised the value of the property downwards to the same amount as at 1 January 2020 and 31 December 2020 by restating comparative information.<br><br>The valuations performed constitute fair value measurement using significant unobservable inputs and therefore constitute level 3 fair value measurements. These measurements involve significant estimates and assumptions and are subject to a greater degree of subjectivity given the lack of sufficient observable data which could be considered comparable to the owner-occupied property which is carried at revalued amounts.<br><br>The assumptions and the resulting estimates are subject to market conditions and may change substantially over time. In order to assess the impact on the Bank's financial position and performance, management prepares a sensitivity analysis for the most significant assumptions. | The audit procedures performed include the following:<br><br>We obtained an understanding of the control framework and the procedure applied by management in determining the fair value of the owner-occupied property and we have assessed the design and implementation of the valuation process.<br><br>We have assessed the independence and evaluated the competence of the external valuers used by management.<br><br>We have confirmed the existence and ownership of the owner-occupied property by obtaining and reviewing relevant documents and by physically inspecting the property.<br><br>We have assessed, using the assistance of PwC real estate experts, the reasonableness and appropriateness of the valuation methodologies applied, and we have assessed whether the significant inputs and assumptions used by management were reasonable.<br><br>We have assessed the technical analysis performed by management and the relevant conclusions derived in relation to the restatement of the financial information of prior years and the relevant disclosures as shown in these financial statements.<br><br>We evaluated the appropriateness of the Bank's disclosures particularly in relation to significant judgements and estimates and the accuracy of the sensitivity analysis performed by management.<br><br>The results of the above procedures were acceptable and appropriate. |

| | |
|---|---|
| Note 2 “Summary of significant accounting policies”, Note 2.23 “Comparatives”, Note 3 “Significant accounting estimates and judgments” and Note 19 “Property and equipment” to the financial statements provide detailed information about the revaluation process applied on the owner-occupied property and details over the effect of the restatement in comparative information.<br><br>Given the material impact of the owner-occupied property and its fair value on the Bank’s financial position and performance, the material effect of restatement in comparative information, the complexity and the significant judgement involved in the valuation and the significant allocation of resources and efforts of the engagement team in auditing this area we consider this matter to be a Key Audit Matter. | |

## *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 the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the 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.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

## *Report on Other Legal and Regulatory Requirements*

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

### ***Appointment of the Auditor and Period of Engagement***

We were first appointed as auditors of the Bank on 28 September 2021 by the shareholders of the Bank.

### ***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 27 April 2022 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 Matters*

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 Anna Loizou.

*Comparative figures*

The financial statements of Ancoria Bank Limited Ltd for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 11 June 2021.

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

29 April 2022