# AstroBank Group

## Annual Financial Report

**For the year ended 31 December 2020**

# Contents

# Board of Directors and Independent Auditors as at 31 December 2020

| | |
|---|---|
| **Board of Directors AstroBank Public Company Limited** | Shadi Karam<br>Independent Non-Executive Chairman |
| | Maurice Sehnaoui<br>Non-Executive Vice Chairman |
| | Aristidis Vourakis<br>Chief Executive Officer *(Appointed on 27 November 2020)* |
| | Constantinos St. Loizides<br>Chairman of the Executive Committee & Managing Director<br>*(resigned on 27 November 2020)* |
| | George Appios<br>Executive Director & Deputy Managing Director *(Resigned on 31 December 2020)* |
| | Marios A. Savvides<br>Executive Director *(Resigned on 6 October 2020)* |
| | Bassam Najib Diab<br>Non-Executive Director |
| | Maria Dionyssiades<br>Independent Non-Executive Director |
| | George Kourris<br>Senior Independent Director *(Resigned on 22 April 2021)* |
| | George Liakopoulos<br>Non-Executive Director *(Resigned on 30 May 2020)* |
| | Costas Partassides<br>Independent Non-Executive Director |
| | Socrates Solomides<br>Independent Non-Executive Director *(Resigned on 31 December 2020)* |
| | Andreas Vassiliou<br>Independent Non-Executive Director |
| | Hikmat Abou Zeid<br>Non-Executive Director |
| **Secretary** | Elli Photiadou *(Resigned on 20 January 2021)*<br><br>Maria Venizelou *(Appointed on 20 January 2021)* |
| **Independent Auditors** | Ernst and Young Cyprus Ltd<br>Jean Nouvel Tower<br>6 Stasinou Avenue<br>1060 Nicosia<br>Cyprus |
| **Legal advisors** | Chrysostomides Advocates and Legal consultants<br>L. Papaphilippou & Co. LLC |
| **Headquarters/Registered office** | 1 Spyrou Kyprianou Avenue<br>CY-1065 Nicosia<br>P O Box 25700<br>CY-1393 Nicosia<br>Cyprus |

The Consolidated Financial Statements for the year ended 31 December 2020 relate to AstroBank Public Company Limited ("the Bank") together with its subsidiaries (together "the Group"). The Bank was the holding company of the Group as at 31 December 2020.

**Incorporation, activities and branch network**

The Bank was incorporated in Cyprus as a private limited liability company (Reg. No. HE189515), in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The registered office of the Bank is located at 1 Spyrou Kyprianou Avenue, CY-1065 Nicosia. The subsidiaries of the Group were incorporated in Cyprus in accordance with the provisions of the Cyprus Companies Law, Cap. 113.

The principal activities of the Bank during the year continued to be the provision of banking and financial services. The principal activities of the property subsidiaries, which are unchanged from last year are the holding, administration and disposal of property acquired by the Bank in debt satisfaction. A separate subsidiary is used as an insurance broker.

The Bank provides banking and financial services through its branch network. As at 31 December 2020 the branch network included 16 branches as well as representative office in Moscow.

**Change of the Bank's name**

On 10 January 2020, the Bank`s name was changed from AstroBank Limited to AstroBank Public Company Limited.

**Changes in group structure**

The following shareholders held more than 10% as at 31 December 2020:

| Shareholders | 31 December 2020<br># of ordinary shares | % held | 31 December 2019<br># of ordinary shares | % held |
|---|---|---|---|---|
| Holding M. Sehnaoui S.A.L. | 4.938.061 | 20,902% | 4.519.194 | 22,868% |
| Bassam Najib Diab | 3.018.694 | 12,778% | 2.292.694 | 11,602% |

**Financial results**

*Consolidated Income Statement*

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Net interest income | 49.668.677 | 46.350.124 |
| Net fee and commission income | 14.388.482 | 13.923.575 |
| Other income | 1.813.573 | 1.838.380 |
| Net gains on financial instrument transactions and disposal of subsidiaries and associates | 15.660.196 | 7.561.142 |
| Gains on derecognition of financial assets measured at amortised cost | - | 17.035.443 |
| **Operating income** | **81.530.928** | **86.708.664** |
| Reversal of impairment on own used properties | - | 1.830.295 |
| Staff expenses | (50.992.762) | (34.711.174) |
| Depreciation and amortisation | (4.594.204) | (4.785.738) |
| Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies | (3.590.132) | (3.010.946) |
| Other operating expenses | (19.454.216) | (15.073.425) |
| **Profit before impairment on financial assets and non-financial assets** | **2.899.614** | **30.957.676** |
| (Impairment)/ reversal of impairment on financial assets | (15.947.381) | 856.621 |
| Impairment on non-financial assets | (3.692.834) | (4.060.164) |
| Impairment of goodwill | - | (8.526.187) |
| **(Loss)/ profit before share of results of associate company** | **(16.740.601)** | **19.227.946** |
| Share of results of associate, net of taxation | 216.773 | **-** |
| **(Loss)/profit before tax** | **(16.523.828)** | **19.227.946** |
| Income tax | (1.585.656) | (2.481.707) |
| **(Loss)/ profit for the year** | **(18.109.484)** | **16.746.239** |

**Financial results (continued)**

*Consolidated Statement of Financial Position*

| | 2020<br>€ | 2019<br>€ |
|---|---:|---:|
| **Assets** | | |
| Cash and balances with Central Banks | 591.779.752 | 241.825.289 |
| Placements with other banks | 55.678.884 | 90.502.226 |
| Derivative financial instruments | 110.624 | 225.113 |
| Financial assets at fair value through profit or loss | 12.020.340 | 30.999.026 |
| Financial assets at fair value through other comprehensive income | 6.171.883 | 6.227.087 |
| Debt securities | 858.895.721 | 698.532.762 |
| Loans and advances to customers | 1.100.393.485 | 997.890.657 |
| Investment in associate company | 3.682.602 | - |
| Other assets | 15.071.110 | 9.428.048 |
| Stock of property | 144.803.288 | 147.664.972 |
| Property and equipment | 34.699.068 | 35.946.344 |
| Intangible assets | 7.016.388 | 3.047.619 |
| Deferred tax asset | 2.510.237 | 3.789.023 |
| **Total assets** | **2.832.833.382** | **2.266.078.166** |
| | | |
| **Liabilities** | | |
| Amounts due to other banks and deposits from banks | 40.926.235 | 17.921.226 |
| Funding from Central Banks | 399.068.750 | - |
| Derivative financial instruments | 670.326 | 156.006 |
| Deposits and other customer accounts | 2.105.730.886 | 2.007.425.085 |
| Other liabilities | 81.976.023 | 56.924.524 |
| Subordinated bond | 16.121.386 | - |
| Deferred tax liability | 1.610.881 | 1.285.019 |
| **Total liabilities** | **2.646.104.487** | **2.083.711.860** |
| | | |
| **Total equity** | **186.728.895** | **182.366.306** |
| | | |
| **Total equity and liabilities** | **2.832.833.382** | **2.266.078.166** |

## 7 Financial results (continued)

| Key Performance Indicators[1,2] | | 2020 | 2019 |
|---|---|---|---|
| **Asset quality** | NPE Ratio | 30,3% | 34,6% |
| | NPE Coverage Ratio[3] | 43,9% | 38,4% |
| **Capital** | Capital Adequacy Ratio (Transitional) | 15,01% | 13,42% |
| **Balance Sheet** | Total Assets | €2.833m | €2.266m |
| | Gross Loans and advances to customers | €1.283m | €1.158m |
| | Accumulated expected credit losses on loans and advances to customers | €183m | €160m |
| | Deposits and other customer accounts | €2.106 | €2.007m |
| **Liquidity** | Liquid assets / Deposits | 71,7% | 52,1% |
| | Net Loans/Deposits | 52,3% | 49,7% |
| | Liquidity Coverage Ratio | 246,0% | 324,0% |
| **Efficiency** | Net interest margin | 2,1% | 2,3% |
| | Fee and commission income/ Total income | 17,6% | 16,1% |
| | Cost/ Income | 88,6% | 82,6% |
| **Profitability** | Return on Average Assets | (0,7%) | 0,8% |
| | Return on Average Equity | (9,8%) | 9,6% |

[1] The financial information is derived from and should be read in conjunction with the accompanied Consolidated Financial Statements.
[2] Definitions and explanations are stated on pages 132-133.
[3] NPE Coverage Ratio including the residual fair value adjustment on initial recognition relating to loans acquired from USB Bank is 59,7% (2019:54,9%).

**Financial performance overview**

**Income statement analysis**

The financial performance of the Group for the year ended 31 December 2020 is set out on pages 22 to 27.

**Net Interest Income**
Net interest income (NII) for the year ended 31 December 2020 was €49,7 million, increased by 7,2% compared to €46,4 million for the year ended 31 December 2019. The NII increase reflects increased interest income from new loan production, the positive impact from the ongoing reductions in the average cost of deposits, the introduction of negative interest rates on corporate clients from March 2020 onwards and the negative interest rates on funding from Central Banks.

The net interest margin for the year ended 31 December 2020 was 2,1% (31 December 2019: 2,3%).

**Non-interest income**
Non-interest income for 2020 amounted to €31,9 million (2019: €40,4 million) down by 21,1% compared to 2019 comprising mainly net fee and commission income of €14,4 million (2019: €13,9 million) and net gains on financial instrument transactions and disposal of subsidiaries and associates of €15,7 million (2019: €7,6 million). In 2019, non-interest income included an amount of €17,0 million as a gain from the disposal of financial assets measured at amortised cost. No disposals from the amortised cost portfolio were made during 2020.

*Net fee and commission income*
Net fee and commission income for 2020 amounted to €14,4 million, compared to €13,9 million for 2019, slightly increased despite the COVID-19 lockdown during the first half of 2020.

*Net gains on financial instrument transactions and disposal of subsidiaries and associates*
Net gains on financial instrument transactions and disposal of subsidiaries and associates amounted to €15,7 million, compared to €7,6 million in 2019. The gain for year 2020, includes an amount of €11,9 million from the sale of 74,9% shareholding in a previous wholly owned subsidiary.

**Expenses**
Total expenses for the year ended 31 December 2020 were €78,6 million, compared to €57,6 million for the year ended 31 December 2019 and increased by 36,6%. 65% of total expenses related to staff costs (€51,0 million), 31% to other operating expenses (€24,0 million) and 5% (€3,6 million) to special levy, contributions to Single Resolution Fund and other levies. The annual increase is driven mainly by higher staff costs as well as higher other operating expenses. More information is provided on these further below.

*Staff cost*
Staff costs of €51,0 million for 2020 increased by 46,9%, compared to €34,7 million in 2019. In December 2020, the Group completed a voluntary redundancy plan through which 114 full-time employees left for a total cost of €17,0 million, recorded in the consolidated income statement in the fourth quarter of 2020. The gross annual savings are estimated at approximately €8,0 million.

*Other operating expenses (including depreciation and amortisation)*
Other operating expenses for 2020 were €24,0 million, increased by 21,1% from €19,9 million in 2019. The main components contributing to the increase were the higher consultancy fees and the 7 months administration fees paid to QQuant Master Servicer Cyprus Limited "QQuant", following the transaction that was completed on 21 August 2020 with effective date 31 May 2020.

The cost to income ratio for the year ended 31 December 2020 was 88,6% compared to 82,6% for the year ended 31 December 2019.

*Impairment losses on financial and non-financial assets*
The Group's impairment losses on financial instruments for the year ended 31 December 2020 amounted to a charge of €15,9 million compared to a reversal of €0,9 million for the year ended 31 December 2019, recording a significant increase.

**Financial performance overview (continued)**

**Income statement analysis (continued)**

*Impairment losses on financial and non-financial assets (continued)*
The increased impairment losses were driven by elevated impairment losses on the loan portfolio, mainly as a result of the impact of the COVID-19 pandemic. The effect of the pandemic on the macroeconomic outlook in 2020 has led to changes in the provisioning parameters applied during the fourth quarter of 2020 including the application of management overlays in relation to the significant credit risk deterioration and Probability of defaults resulting to the increase on impairment losses.

The Group’s impairment losses on non-financial assets for the year ended 31 December 2020 amounted to €3,7 million compared to €4,1 million for the year ended 31 December 2019. The key driver is the impairment on stock of property attributable to the reassessment of the net realizable value (NRV) of the Real Estate Own Assets portfolio.

*Taxation*
The Group’s taxation for the year ended 31 December 2020 amounted to a deferred tax charge of €1,6 million (2019: €2,5 million). The deferred tax charge was mainly due to the expired brought forward taxable losses during 2020.

**Statement of financial position analysis**

The Group’s total assets amounted to €2.832,8 million as at 31 December 2020 (31 December 2019: €2.266,1 million), presenting an increase of 25,0%, mainly attributed from the funding from Central Banks and the increase in deposit balances.

**Funding and liquidity**

**Funding from Central Banks**
Despite its comfortable liquidity position, the Group during 2020 proceeded obtaining funding from the European Central Bank, given the favorable borrowing rate, in combination with the relaxation of collateral terms. At 31 December 2020, the Group's funding from central banks amounted to €400 million, comprising of funding through the Pandemic Emergency Longer Term Refinancing Operations (PELTRO) €100 million and the Targeted Longer-Term Refinancing Operations (TLTRO) €300 million. As at 31 December 2019 the Group had no funding from Central Banks.

**Deposits**

Customer deposits totaled €2.105,1 million at 31 December 2020 (31 December 2019: €2.007,4 million), presenting an increase of approximately 5,0%.They comprised deposits in Euro and foreign currencies, mostly US Dollars and British Pounds.

| **Deposits by type** | **31 December 2020** | **% of total deposits** | **31 December 2019** | **% of total deposits** |
|---|---|---|---|---|
| Current accounts | €1.274,0m | 60,5% | €1.028,8m | 51,3% |
| Savings accounts | €342,2m | 16,3% | €276,4m | 13,7% |
| Term deposits | €489,5m | 23,2% | €702,2m | 35,0% |
| **Total deposits** | **€2.105,7m** | **100,0 %** | **€2.007,4m** | **100,0%** |

Customers deposits accounted for 79,6% of total liabilities at 31 December 2020, compared to 96,3% of total liabilities at 31 December 2019.

**Financial performance overview (continued)**

**Statement of financial position analysis (continued)**

**Subordinated bond**
During 2020, the Bank issued a €16,4 million unsecured and subordinated Tier 2 Bond. At 31 December 2020 the Company's subordinated bond (including accrued interest, net of issue costs) amounted to €16,1million.

The Bond was priced at par with a coupon of 8% per annum, payable quarterly. The Bond matures ten years from its issuance date. The Bank may redeem all of the Bonds on any Interest Payment Date as defined in Note 23 following the fifth anniversary of the issuance date of the relevant bond, subject to applicable regulatory consents.

**Liquidity**
As at and during the year ended 31 December 2020, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank. The Liquidity Coverage Ratio (LCR) stood at 246% compared to 324% at 31 December 2019 above the minimum regulatory requirement of 100%.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will be enforced as a regulatory ratio under CRR II in June 2021, with the limit set at 100%. At 31 December 2020, the Group's NSFR, on the basis of Basel III standards, stood at 127,6%, compared to 165,6% at 31 December 2019 and a minimum requirement of 100%.

Details of the liquidity risk management are disclosed in Note 40 to the Consolidated financial statements for the year ended 31 December 2020.

**Loans and advances to customers**
Gross loans totaled €1.283,0 million at 31 December 2020, compared to €1.158,1 million at 31 December 2019, increased by 10,8%.

Total new lending granted during 2020 reached approximately €200 million (2019: €238 million). The Group continued providing lending to creditworthy businesses and households.

On 31 December 2020, the Group's net loans and advances to customers totaled €1.100,4 million (compared to €998,0 million at 31 December 2019). Increase in gross and net loans is driven mainly from the new lending granted in the year.

The net loans to deposits ratio stood at 52,3% as at 31 December 2020 (31 December 2019: 49,7%).

*Gross loans balance by type:*

| | 31 December 2020 | 31 December 2019 | Growth % |
|---|---|---|---|
| Consumer | €131,4m | €124,8m | 5,3% |
| Housing | €198,0m | €173,4m | 14,2% |
| Credit cards | €12,5m | €11,0m | 13,6% |
| Corporate | €941,1m | €848,9m | 10,9% |
| **Gross loans** | **€1.283,0m** | **€1.158,1m** | **10,8%** |

**Financial performance overview (continued)**

**Statement of financial position analysis (continued)**

***Loan moratorium***
In the light of the COVID-19 crisis, a moratorium was applied, as voted by the Cyprus Parliament, to all individuals or legal entities across different sectors who applied and were eligible under the scheme (suspension of instalments of capital and interest for a period of nine months) until 31 December 2020. The gross carrying amount of the loans and advances, before the residual fair value adjustment on initial recognition, subject to moratorium on loan repayments amounted to €530,0 million as at 31 December 2020, comprising of gross loans to general governments of €1,8 million, to financial corporations of €37,7 million, to households of €81,1 million and to non-financial corporations of €409,4 million, representing 36,9% of total gross loans before residual fair value adjustment on initial recognition.

Gross loans before the residual fair value adjustment on initial recognition under payment deferrals that expired on 31 December 2020, totaled €530,0 million of which €483,5 million related to performing loans.

A second scheme for the suspension of loan repayments for interest and principal (loan moratorium) was launched in January 2021 for customers impacted by the second lockdown. Payment deferrals are offered to the end of June 2021, however, the total months under loan moratorium, when including the loan moratorium offered in 2020, cannot exceed a total of nine months. The application period expired on 31 January 2021 and loans of approximately €8,9 million have been approved for the second moratorium. Close monitoring of the credit quality of loans in moratoria continues.

Approximately €0,4 million of loans to private individuals and businesses under payment deferrals were moved from Stage 1 to Stage 2 in the year ended 31 December 2020, mainly due to the significant increase in credit risk resulting from the deterioration of the macro economic environment and the use management overlays. Further details are provided in Note 6.2 'Calculation of expected credit losses'-'Overlays in the context of COVID-19' to the Consolidated Financial Statements. The Company will continue to monitor its portfolio closely, to ensure that problematic areas are identified at an early stage, and appropriate solutions are provided to viable customers.

***Loan Portfolio Quality***
Improving the Group's loan portfolio quality remains high priority for Management. The Group continues to make steady progress across all asset quality metrics and the loan restructuring activity continues.

Non-Performing Exposures (NPEs) were reduced to €388,4 million as at 31 December 2020 compared to €400,4 million at 31 December 2019. NPEs account for 30,3% of gross loans as at 31 December 2020, compared to 34,6% at 31 December 2019, on the same basis.

The NPE coverage ratio increased to 43,9% at 31 December 2020, compared to 38,4% at 31 December 2019. When taking into account tangible collateral at fair value, NPEs are fully covered.

Effective from 1 January 2021, the Bank has implemented the new default definition, which affects NPEs and the calculation of days past due. As at 1 January 2021, the impact of this change on the Group is immaterial. For details refer to Note 6.2 "Calculation of expected credit losses".

Further details on the loan portfolio of the Group are disclosed in Notes 22 and 40 to the Consolidated financial statements for the year ended 31 December 2020.

**Investment in associate company**
Within the framework of the Bank's strategy to improve its asset quality, the Bank on 31st December 2019 reached an agreement, with Qualco Holdco Limited ('Qualco'), for the sale to the latter of 74,9% of QQuant Master Servicer Cyprus Limited, a newly formed company, for the management of the Bank's portfolio of Non Performing Exposures and Real Estate Owned Assets. The transaction was completed on 21 August 2020 with effective date 31 May 2020 (Note 23 to the consolidated financial statements).

The contract was priced at arms' length basis following competitive bidding process. On completion of the transaction the Bank recognised an investment in associate amounting to €3,5 million and a gain on disposal of €11,9 million.

Further details on the Investment in associate company are disclosed in Note 23 to the Consolidated financial statements for the year ended 31 December 2020.

**Financial performance overview (continued)**

**Statement of financial position analysis (continued)**

**Stock of property**
During the year ended 31 December 2020, the Group on-boarded €5,0 million (31 December 2019: €15,8 million) of assets via the execution of debt for asset swaps and foreclosures, and completed disposals of €4,1 million (31 December 2019: €3,5 million).

As at 31 December 20120, the Real Estate Owned Assets had a carrying value of €144,8 million.

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Repossessed assets held by the Group** | **€** | **€** |
| Opening balance | 147.664.972 | 75.827.500 |
| Acquired via the acquisition of USB Bank business | - | 63.045.190 |
| On boarded during the period | 4.956.660 | 15.792.223 |
| Disposals | (4.125.510) | (3.475.020) |
| Impairment | (3.692.834) | (3.524.921) |
| Closing balance | **144.803.288** | **147.664.972** |

**Share capital**
As at 31 December 2020, there were 23,6 million (2019: 19,8 million) issued ordinary shares with a nominal value of €1 each.

During the Board of Directors meeting on 22 June 2020 the Bank has examined and approved the request for conversion of 1.250.000 redeemable preference shares into 1.250.000 ordinary shares of nominal value €1 each and a share premium of €7 each. In addition, during the year 2020, the Bank has issued and allotted 2.613.035 ordinary shares of nominal value €1 each at a share premium of €7,85 each, resulting in an increase in the issued share capital by €2,6 million and an increase in share premium by €20,5 million.

Following the conversion of the redeemable preference shares and the issue of share capital, the share capital and share premium amounted to €23,6 million and €155,4 million respectively. Share premium is net of capital raising costs of €0,8 million.

**Dividend**
The Bank is currently under a regulatory dividend distribution prohibition up to 30 September 2021 and therefore the Board of Directors of the Bank does not propose the payment of a dividend for the year ended 31 December 2020. No dividend was paid or proposed for the year ended 31 December 2019.

**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 2020 the Bank maintains a capital adequacy ratio above the minimum required by the relevant regulatory authorities. The Capital adequacy ratio (transitional) stood at 15,01% 31 December 2020 and at 13,4% at 31 December 2019.

The ratio was positively affected by the new issued share capital during the year 2020 as well as from the issuance of the subordinated bond, whereas it was negatively affected mainly by the phasing-in of IFRS 9 transitional adjustments on 1 January 2020 and the losses of the year, mainly as a result of the ECL charges due to COVID-19 and the one-off cost for the targeted voluntary staff exit plan. Moreover, the recently introduced adjustments and relief measures to CET1 in response to the COVID-19 pandemic, affected positively the ratio through increasing the IFRS9 add-back (dynamic component) and by decreasing RWAs through the implementation of the new SME supporting factor under CRR II introduced earlier in June 2020 instead of June 2021.

The Bank's risk weighted assets as at 31 December 2020 amounted to €1380,0 million and are calculated based on the stand-alone audited financial statements of the Bank for the same reference date. The Bank's subsidiary companies are not consolidated for regulatory purposes. The main activities of the Investment Property subsidiary companies is the holding and administration of property acquired by the Bank in debt satisfaction.

**Capital base (continued)**

Details of the capital management of the Bank are disclosed in Note 41 to the Consolidated financial statements.

**Going concern**
The Board of Directors and Management have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these consolidated financial statements.

The Board of Directors and Management, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity and the current economic developments in order to make projections for future economic conditions of the environment in which it operates.

Based on the above and taking into account:

- the Bank's capital adequacy position (Note 41);
- the Bank's liquidity position (Note 40);
- the measures taken by the Bank to protect its employees from COVID-19, the implementation of actions under the Business Continuity Plan and the activation of the ability for teleworking at a large scale whilst ensuring that critical operations are performed;
- the decisions of the Government of the Republic of Cyprus to adopt a series of fiscal and monetary measures to stimulate the economy, as well as the decisions of the European banks' supervisory authorities to provide liquidity and capital adequacy support to the extent that this is affected by the outbreak of the COVID-19. Due to the dynamic nature of COVID-19, the expected impact on the future profitability is difficult to estimate. The Bank monitors the situation, taking all necessary measures to mitigate the impact on its operations and financial performance.

The Bank estimates that, at least for the next 12 months, the conditions for the application of the going concern principle for the preparation of its financial statements are met.

**Principal risks and uncertainties - Risk management and mitigation**
The Group activities are mainly in Cyprus therefore its performance is impacted by changes in the Cyprus operating environment.

Like other financial organisations, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and price risk). The Group monitors and manages these risks through various control mechanisms.

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

The Group is also exposed to litigation risk, arising from claims on other matters. Further information is disclosed in Note 40 to these consolidated financial statements for the year ended 31 December 2020.

As explained in Note 40 to the consolidated financial statements, the Group's risk management program focuses on the unpredictability of the economic environment in which it operates and seeks to minimise potential adverse effects on the Group's financial performance. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and to ensure adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors is assisted in this task by the Risk Committee and the Audit Committee which assess the adequacy of the risk management framework and the system of internal controls of the Group respectively.

COVID-19 and its longer term impacts on the economy and the Group's financial performance remain uncertain. Specifically, COVID-19 could have an adverse impact across risks including the credit portfolio, operational risk, people, capital, funding and liquidity. The Group is closely monitoring the effects of COVID-19 and impact on its operations, businesses and financial performance, including liquidity and capital usage. The effects of COVID-19 are described in the 'Implications from outbreak of COVID-19' section of this Management Report.

**Implications from outbreak of COVID-19**

The COVID-19 pandemic, led the European and global economy to a sharp recession. Cyprus has been greatly affected by the global pandemic as well, both in terms of health and economic impact. Output declined by 5,1% in 2020 according to Central Bank of Cyprus. The authorities put in place a large emergency fiscal package to address the crisis, focused on preserving jobs and providing liquidity for households and firms. The banking sector entered the crisis with comfortable capital and liquidity buffers and, together with the support of the ECB’s accommodative monetary policy, facilitated the provision of credit to the economy.

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

Statistics are encouraging as Cyprus ranks first among EU countries in terms of testing for COVID-19 and fifth globally for the management of the pandemic (Lowy Institute). In addition, the development of effective vaccines is encouraging and successful vaccination programmes both in Cyprus and abroad should act as strong catalysts for both global and local economic recovery. In fact, the Cyprus Government expects that over 60% of the population over 18 years old will be vaccinated by the end of June 2021.

The Bank monitors the situation, taking all necessary measures to mitigate the impact on its operations and financial performance.

Upon the outbreak of COVID-19 in March 2020, the Crisis Management Committee of the Group in collaboration with Human Resource Department has been monitoring the situation and providing guidance on health Impact of COVID 19 in operations and the key measures taken and safety measures, travel advice and business continuity for the Group. Local government guidelines are being followed in response to the virus.

The Group adopted a set of measures to ensure minimum disruption to its operations. The Crisis Management Committee are still closely monitoring the dynamic COVID-19 pandemic developments and status. The measures comprise rules for quarantine for vulnerable employees due to health conditions and for those returning from epicentres of the infection. The Group replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. In addition, to ensure continuity of business, a number of employees have been working from home and the remote access capability has been upgraded significantly while at the same time maintaining relevant control procedures to ensure authorisation in line with the Group's governance structure. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers.

The potential economic implications for the sectors where the Group is active have been assessed and possible mitigating actions for supporting the economy have been identified, such as supporting viable affected businesses and households with new lending to cover liquidity, working capital, capital expenditure and investments related to the activity of the borrower.

The package of policy measures announced by the ECB and the European Commission, as well as the unprecedented fiscal and other measures of the Cyprus Government, have helped and should continue to help reduce the negative impact and support the recovery of the Cypriot economy.

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. In the light of the COVID-19 crisis, a moratorium was applied, as voted by the Cyprus Parliament, to all individuals or legal entities across different sectors who applied and were eligible under the scheme (suspension of instalments of capital and interest for a period of nine months) until 31 December 2020. The gross carrying amount of the loans and advances, before the residual fair value adjustment on initial recognition subject to moratorium on loan repayments amounted to €530,0 million as at 31 December 2020, comprising of gross loans to general governments of €1,8 million, to financial corporations of €37,7 million, to households of €81,1 million and to non-financial corporations of €409,4 million, representing 36,9% of total gross loans before residual fair value adjustment on initial recognition.

**Implications from outbreak of COVID-19 (continued)**

*Impact of COVID 19 in operations and the key measures taken*
The payment holiday for all these loans expired on 31 December 2020. Close monitoring of the credit quality of these loans continues and customers with early arrears are offered solutions.

A second scheme for the suspension of loan repayments for interest and principal (loan moratorium) was launched in January 2021 for customers impacted by the second lockdown. Payment deferrals are offered to the end of June 2021, however, the total months under loan moratorium, when including the loan moratorium offered in 2020, cannot exceed a total of nine months. The application period expired on 31 January 2021 and loans of approximately €8,9 million have been approved for the second moratorium. Close monitoring of the credit quality of loans in moratoria continues.

*Impact of COVID 19 in the calculation of expected credit losses*
The outlook for the global economy has deteriorated markedly in 2020 as a result of the COVID-19 pandemic and the lockdown measures to contain it that led to significant disruptions in economic activity. Worst outcomes were avoided by aggressive and excessively expansive monetary and fiscal policies. As a result, the Group updated its forward-looking scenarios underlying the IFRS 9 calculation of expected credit losses, factoring in updated macroeconomic assumptions and other monetary and fiscal developments at the national and the EU level, for mitigating the consequences of the pandemic.

Moreover, the Group considered the complexities of governmental support programmes and regulatory guidance on treatment of customer payment breaks by the ECL models. In this context, management has considered the data and measurement limitations arising from the extraordinary impact of COVID-19 and addressed them through management overlays in relation to the significant credit risk deterioration and Probability of defaults.

Further details of the calculation of expected credit losses are disclosed in Note 6.2 to the Consolidated financial statements for the year ended 31 December 2020.

*Impact of COVID 19 pandemic on real estate properties*
The real estate industry is regarded as a key driver of economic activity. The property market in Cyprus currently faces a negative impact driven by COVID 19 pandemic as a result of the sudden stop in economic activity. The slowdown in the activity which is mostly associated with the decline in demand from foreign investors is likely to continue in the short term due to the impact of the coronavirus pandemic, but on the other hand in the face of economic uncertainty, investors continue to seek security, and real estate has a role to play by providing access to secure income and a physical asset.

External valuations are prepared as being subject to 'material valuation uncertainty' as set out in RICS Valuation Global Standards. Consequently, in respect of these valuations less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case.

**Board of Directors**
The members of the Board of Directors of the Bank during the year 2020 and on the date of this Management Report are listed on page 1. All Directors were members of the Board throughout the year and up to the date of this Management Report except as disclosed below.

On 30 May 2020, the Board of Directors accepted the resignation of Mr. George Liakopoulos as a Non-Executive Director.

On 27 August 2020, the Board of Directors decided to appoint Mr. Aristidis Vourakis as Chief Executive Officer ("CEO") and member of the Board of Directors subject to the consent of the Central Bank of Cyprus ("CBC") and his election at the next Annual General Meeting. The appointment of Mr. Aristidis Vourakis has been approved by CBC on 25 November 2020. Mr. Aristidis Vourakis assumed his executive duties on 27 November 2020.

**Board of Directors (continued)**
On 27 August 2020, the Board of Directors accepted the resignation of Mr. Constantinos Loizides as Chairman of the Executive Committee & Managing Director and a member of the Board of Directors, effective from Mr. Aristidis Vourakis' appointment approval by the CBC.

On 6 October 2020, the Board of Directors accepted the resignation of Mr. Marios Savvides as an Executive Director.

On 24 November 2020, the Board of Directors accepted the resignation of Mr. George Appios as Executive Director & Deputy Managing Director effective from 31 December 2020.

On 15 December 2020, the Board of Directors accepted the resignation of Mr. Socrates Solomides as an Independent Non-Executive Director with effect from 31 December 2020.

On 22 April 2021, the Board of Directors accepted the resignation of Mr. George Kourris as a Senior Independent Director and member of the Board.

The Board would like to thank all Directors who have retired for their contribution to the Group.

The remuneration of the Board of Directors is disclosed in Note 45 to the Consolidated Financial Statements.

**Future developments/ prospects**
The Cypriot economy is being negatively affected by the pandemic outbreak and the resulting disruption of economic activity, which could impact lending portfolios. This development along with the loan moratoria to businesses and households come to an end, may adversely affect the repayment ability of certain borrowers and, consequently, the amount of expected credit risk losses. The economic implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently. The Group is closely monitoring the affected loan portfolio in order to mitigate the risk of potential new defaults.

The Group's strategy is focused towards operating efficiency and cost control, revenue growth with lending being the key driver, whilst maintaining a good capital position and liquidity. The Bank's challenge is to drive lending with controlled risk and good pricing, supporting viable businesses and households while safeguarding shareholder value.

At the same time, priority remains the reduction of non-performing loans through customer restructuring, consensual settlement arrangements, debt for asset swaps, foreclosures and effective capital management. This is mainly to be achieved through the internal effective management of the distressed exposures and also through the agreement with Qualco Holdco Limited ('Qualco'), for the sale to the latter of 74,9% of QQuant Master Servicer Cyprus Limited, a newly formed company, for the management of the Bank's portfolio of Non Performing Exposures and Real Estate Owned Assets.

**Events after the reporting date**
The events after the reporting date are disclosed in Note 48 of the Consolidated financial statements for the year ended 31 December 2020.

**Independent auditors**
Ernst & Young Cyprus Limited, have signified their willingness to continue in office. A resolution proposing their re-appointment and authorising the Board to set their remuneration will be proposed at the Annual General Meeting.

**By Order of the Board,**

Aristidis Vourakis
Chief Executive Officer
31 May 2021

EY
Building a better working world

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
P.O. Box 21656
1511 Nicosia, Cyprus

Tel: +357 2220 9999
Fax: +357 2220 9998
ey.com

# Independent Auditor's Report

## To the Members of AstroBank Public Company Limited

## Report on the Audit of the Consolidated Financial Statements Opinion

We have audited the consolidated financial statements of AstroBank Public Company Limited (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 22 to 131 and comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Impairment on loans and advances to customers**<br><br>As at 31 December 2020, gross loans and advances to customers amounted to €1.282.952.701 and the related impairment amounted to €182.559.216.<br><br>The relevant accounting policy is presented in the accounting policies and further analysed in Note 2 to the consolidated financial statements.<br><br>Management exercises significant judgement, using subjective assumptions, including management overlays to address the impact of Covid-19 pandemic, when determining both the timing and the amounts of the ECL for loans and advances to customers. Refer to Note 6.2 to the consolidated financial statements for the critical accounting estimates and judgments used in the calculation of ECL.<br><br>As loans and advances comprise a large portion of the Group's assets, and due to the significance of judgement used in estimating the expected credit losses on loans and other advances is considered to be a key audit matter.<br><br>Refer to Note 14, 22 and 40to the consolidated financial statements for the relevant disclosures. | The key judgments and estimates in respect of the timing and measurement of ECL which we focused on include:<br><br>• The allocation of loans and advances to Stages 1, 2 or 3 using criteria in accordance with the standard (including loans and advances which moratorium was granted);<br>• The inputs, assumptions and probability weightings assigned to multiple economic scenarios;<br>• Management overlays used in the ECL calculation to address the uncertainty over the impact of COVID-19 pandemic;<br>• The identification and measurement of individually assessed provisions; and<br>• The accuracy and adequacy of the disclosures in the financial statements.<br><br>In obtaining sufficient appropriate audit evidence we:<br><br>• Performed walkthroughs of the processes relevant to the calculation of ECL to identify key systems, applications and controls within the processes.<br>• Tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL.<br>• For a sample of loans and advances to customers, we assessed whether the inputs used in the ECL calculation such as liquidation haircuts and liquidation date are determined in accordance with the Company's policy and methodology.<br>• Engaged our internal specialists to assess whether the management overlays used in the ECL calculation to address the uncertainty over the impact of COVID 19 pandemic are reasonable.<br>• Performed analytical procedures on the ECL recognised such as trend analysis on PDs and LGDs and sensitivity analysis to assess whether the ECL recognised by the Company is reasonable. |

| | |
|---|---|
| | • Obtained and read the minutes of the Provisioning Committee meetings where the inputs, assumptions and ECL adequacy were discussed and approved by the Provisioning Committee.<br>• Analysed and evaluated the criteria used to allocate loans and advances to customers to Stage 1, 2 or 3 in accordance with IFRS 9. We selected a sample of loans and advances to customers in Stage 1, 2 or 3 to test whether they were allocated to the appropriate stage. In addition, we have selected a sample of loans and advances to customers which their repayments have been suspended due to the loan moratorium and assessed whether they were allocated to the appropriate stage.<br>• For a sample of the loan reviews performed by the Company, we tested the measurement of the provisions by assessing the reasonableness of the main assumptions and the accuracy of key inputs used such us collateral value, liquidation date and estimated cash flows.<br>• Engaged our internal specialists to assess whether the coding of the Company's ECL tool used to calculate the collective impairment is in line with the Company's methodology<br>• We have selected a sample of collaterals and engaged an external property valuation specialist to assess the appropriateness of the collateral valuation used by the Company in the ECL calculation<br>• Tested the arithmetical accuracy of the ECL calculation for the year ended 31 December 2020.<br>• Assessed the disclosures made against the relevant accounting standards. |
| **Disposal of 74,9% of Qquant Master Servicer Cyprus Limited to Qualco Holdco Limited**<br><br>On 21 August 2020 the sale of 74,9% of Qquant Master Servicer Cyprus Limited to Qualco Holdco Limited was completed.<br><br>On completion of the transaction the Bank recognised an investment in associate and a gain on disposal of €11.893.761. | In obtaining sufficient appropriate audit evidence for the accounting of the disposal transaction we:<br><br>• Read the relevant agreements and obtained an understanding of the business reason for the disposal transaction.<br>• Inquired and obtained from management their clarifications and significant judgements applied in relation to the arrangement.<br>• Assessed, by involving our internal IFRS specialists, the adopted accounting treatment of the disposal transaction under IFRS and in particular whether the Bank maintains control or |

| | |
|---|---|
| The relevant accounting policy is presented in the accounting policies and further analysed in Note 2 to the consolidated financial statements.<br><br>As management exercises significant judgement, on whether the Bank maintains control or significant influence over Qquant Master Servicer Cyprus Limited, the disposal of Qquant Master Servicer Cyprus Limited is considered to be a key audit matter.<br><br>Refer to Note 6, 10 and 23 to the consolidated financial statements for the relevant disclosures. | significant influence over Qquant Master Servicer Cyprus Limited.<br>• Tested the calculation performed by the Bank for the gain on disposal.<br>• Assessed the disclosures made against the relevant accounting standards. |

**Reporting on other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

EY
Building a better working world

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always

detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

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

We were first appointed as auditors of the Company on 12 June 2018 by the Company's shareholders. Our appointment has been renewed annually by shareholder resolution since then representing a total period of uninterrupted engagement appointment of 3 years.

***Consistency of the Additional Report to the Audit Committee***

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 24 May 2021 in accordance with Article 11 of the EU Regulation 537/2014.

***Provision of Non-audit Services***

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

***Other Legal Requirements***

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.

- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

## Other Matters

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Savvas Pentaris.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia, 1 June 2021

# Consolidated financial statements

# Consolidated Income Statement
**for the year ended 31 December 2020**



| | Note | 2020 € | 2019 € |
|---|---|---|---|
| Interest income | 7 | 52.118.361 | 50.147.340 |
| Other interest income | 7 | 563.329 | 2.141.328 |
| Interest expense | 7 | (3.013.013) | (5.938.544) |
| **Net interest income** | | **49.668.677** | **46.350.124** |
| | | | |
| Fee and commission income | 8 | 16.996.514 | 16.743.555 |
| Fee and commission expense | 8 | (2.608.032) | (2.819.980) |
| **Net fee and commission income** | | **14.388.482** | **13.923.575** |
| | | | |
| Other income | 9 | 1.813.573 | 1.838.380 |
| Net gains on financial instrument transactions and disposal of subsidiaries and associates | 10 | 15.660.196 | 7.561.142 |
| Gains on the derecognition of financial assets measured at amortised cost | 21 | - | 17.035.443 |
| **Total net income** | | **81.530.928** | **86.708.664** |
| Reversal of impairment on own used properties | 26 | - | 1.830.295 |
| Staff expenses | 11 | (50.992.762) | (34.711.174) |
| Depreciation and amortisation | 12 | (4.594.204) | (4.785.738) |
| Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies | 13 | (3.590.132) | (3.010.946) |
| Other operating expenses | 13 | (19.454.216) | (15.073.425) |
| **Profit from ordinary operations before impairment losses on financial assets and non-financial assets** | | **2.899.614** | **30.957.676** |
| (Impairment) /reversal of impairment on financial assets | 14 | (15.947.381) | 856.621 |
| Impairment on non-financial assets | 25 | (3.692.834) | (4.060.164) |
| Impairment of goodwill | 27 | - | (8.526.187) |
| **(Loss)/ profit before share of results of associate** | | **(16.740.601)** | **19.227.946** |
| | | | |
| Share of results of associate, net of taxation | 23 | 216.773 | - |
| **(Loss)/ profit before tax** | | **(16.523.828)** | **19.227.946** |
| | | | |
| Income tax | 15 | (1.585.656) | (2.481.707) |
| **(Loss)/ profit for the year** | | **(18.109.484)** | **16.746.239** |

The notes on pages 28-131 form an integral part of the consolidated financial statements.

# Consolidated Statement of Comprehensive Income
## for the year ended 31 December 2020

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **(Loss)/ profit for the year after tax** | **(18.109.484)** | **16.746.239** |
| | | |
| **Other comprehensive income:** | | |
| | | |
| ***Items that will not be reclassified in the income statement*** | | |
| *Property revaluation reserve* | | |
| Revaluation gain on own use properties (Note 26,36) | 153.678 | 672.678 |
| Deferred tax on revaluation of own used properties (Note 26,36) | (36.125) | (81.452) |
| | | |
| *Fair value reserve (equity instruments)* | | |
| Equity investments at fair value through other comprehensive income (FVOCI) – net change in fair value (Note 36) | 14.560 | (763.859) |
| | | |
| **Other comprehensive gain/ (loss) for the year after tax** | **132.113** | **(172.633)** |
| | | |
| **Total comprehensive (loss)/ income for the year** | **(17.977.371)** | **16.573.606** |

The notes on pages 28-131 form an integral part of the consolidated financial statements.

# Consolidated Statement of Financial Position
## as at 31 December 2020



| | Note | 31 December 2020 € | 31 December 2019 € |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Banks | 16 | 591.779.752 | 241.825.289 |
| Placements with other banks | 17 | 55.678.884 | 90.502.226 |
| Derivative financial instruments | 18 | 110.624 | 225.113 |
| Financial assets at fair value through profit or loss | 19 | 12.020.340 | 30.999.026 |
| Financial assets at fair value through other comprehensive income | 20 | 6.171.883 | 6.227.087 |
| Debt securities | 21 | 858.895.721 | 698.532.762 |
| Loans and advances to customers | 22 | 1.100.393.485 | 997.890.657 |
| Investment in associate company | 23 | 3.682.602 | - |
| Other assets | 24 | 15.071.110 | 9.428.048 |
| Stock of property | 25 | 144.803.288 | 147.664.972 |
| Property and equipment | 26 | 34.699.068 | 35.946.344 |
| Intangible assets | 27 | 7.016.388 | 3.047.619 |
| Deferred tax assets | 29 | 2.510.237 | 3.789.023 |
| **Total assets** | | **2.832.833.382** | **2.266.078.166** |
| | | | |
| **Liabilities** | | | |
| Amounts due to other banks and deposits from banks | 30 | 40.926.235 | 17.921.226 |
| Funding from Central Banks | 31 | 399.068.750 | - |
| Derivative financial instruments | 18 | 670.326 | 156.006 |
| Deposits and other customer accounts | 32 | 2.105.730.886 | 2.007.425.085 |
| Subordinated bond | 33 | 16.121.386 | - |
| Other liabilities | 34 | 81.976.023 | 56.924.524 |
| Deferred tax liabilities | 29 | 1.610.881 | 1.285.019 |
| **Total liabilities** | | **2.646.104.487** | **2.083.711.860** |
| | | | |
| **Equity** | | | |
| Share capital | 35 | 23.624.789 | 19.761.754 |
| Share premium | 35 | 155.383.361 | 126.906.436 |
| Preference shares | 35 | - | 10.000.000 |
| Fair value reserve | 36 | 606.550 | 544.201 |
| Retained earnings and other reserves | 36 | 7.114.195 | 25.153.915 |
| **Total equity** | | **186.728.895** | **182.366.306** |
| | | | |
| **Total equity and liabilities** | | **2.832.833.382** | **2.266.078.166** |

The notes on pages 28-131 form an integral part of the consolidated financial statements.

On 31 May 2021 the Board of Directors of AstroBank Public Company Limited approved these consolidated financial statements for issue.

Shadi Karam — Chairman

Aristidis Vourakis — Chief Executive Officer

Paola Ioannou — Chief Financial Officer

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

| | Share Capital (Note 35) € | Share Premium (Note 35) € | Preference shares (Note 35) € | Fair value Reserve (Note 36) € | Retained earnings (Note 36) € | Total € |
|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 14.113.487 | 88.554.704 | - | 716.834 | 8.407.676 | 111.792.701 |
| *Total comprehensive income for the year* | | | | | | |
| Profit for the year | - | - | - | - | 16.746.239 | 16.746.239 |
| Other comprehensive loss for the year | - | - | - | (172.633) | - | (172.633) |
| Total comprehensive income for the year | - | - | - | (172.633) | 16.746.239 | 16.573.606 |
| Issue of ordinary shares (Note 35) | 5.648.267 | 38.351.732 | - | - | - | 43.999.999 |
| Issue of preference shares (Note 35) | - | - | 10.000.000 | - | - | 10.000.000 |
| **Balance as at 31 December 2019** | **19.761.754** | **126.906.436** | **10.000.000** | **544.201** | **25.153.915** | **182.366.306** |
| Balance at 1 January 2020 | 19.761.754 | 126.906.436 | 10.000.000 | 544.201 | 25.153.915 | 182.366.306 |
| *Total comprehensive income for the year* | | | | | | |
| Loss for the year | - | - | - | - | (18.109.484) | (18.109.484) |
| Transfer from disposal of equity shares classified at FVTOCI (Note 36) | - | - | - | (69.764) | 69.764 | - |
| Other comprehensive income for the year | - | - | - | 132.113 | - | 132.113 |
| Total comprehensive loss for the year | - | - | - | 62.349 | (18.039.720) | (17.977.371) |
| Issue of ordinary shares (Note 35) | 2.613.035 | 20.512.325 | - | - | - | 23.125.360 |
| Issue costs (Note 35) | - | (785.400) | - | - | - | (785.400) |
| Redemption of preference shares (Note 35) | 1.250.000 | 8.750.000 | (10.000.000) | - | - | - |
| **Balance as at 31 December 2020** | **23.624.789** | **155.383.361** | **-** | **606.550** | **7.114.195** | **186.728.895** |

The notes on pages 28-131 form an integral part of the consolidated financial statements.

# Consolidated Statement of Cash Flows
## for the year ended 31 December 2020

| | Notes | 2020<br>€ | 2019<br>€ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year before tax | | (16.523.828) | 19.227.946 |
| Adjustments for: | | | |
| Depreciation and amortisation | 12 | 4.594.204 | 4.785.738 |
| Profit on disposal of stock of property and investment property | 9 | (65.068) | (258.777) |
| Fair value gain on financial assets at fair value through profit or loss | 19 | (1.466.769) | (4.923.087) |
| Gains on derecognition of financial assets measured at amortised cost | 21 | - | (17.035.443) |
| Gain on disposal of subsidiaries and associates | 10 | (11.893.761) | - |
| Share of results of associate company | 23 | (216.773) | - |
| Profit from revaluation of debt securities designated as fair value hedges | 10 | (515.143) | - |
| Reversal of impairment on own used properties | 26 | - | (1.830.295) |
| Impairment of Goodwill | 27 | - | 8.526.187 |
| Finance lease interest | 28 | 85.134 | 98.259 |
| Impairment of non-financial assets | 25 | 3.692.834 | 4.060.164 |
| Foreign exchange difference on investments | | 9.798.794 | (1.563.702) |
| Amortisation of debt securities | | 4.908.638 | 2.172.505 |
| Dividend income | 9 | (542.948) | (767.057) |
| Distribution from fund participation | 9 | (812.605) | (632.228) |
| Negative interest on funding from central banks | 7 | (931.250) | - |
| Interest on subordinated bond | 7 | 675.011 | - |
| Provision for/ (reversal of) expected credit loss to cover credit risk on loans and advances to customers | 14 | 15.665.629 | (2.698.604) |
| (Reversal of)/ provision for expected credit loss to cover credit risk on contractual commitments and guarantees | 14 | 480.646 | 349.930 |
| (Reversal of)/ provision for expected credit loss to cover credit risk on other financial instruments | 14 | 39.236 | 1.253.923 |
| | | **6.971.981** | **10.765.460** |
| Changes in: | | | |
| Loans and advances to customers (note 1 below) | | (123.125.117) | (130.917.845) |
| Deposits from and amounts due to other banks and customer accounts | | 121.310.810 | 138.375.855 |
| Change in mandatory deposits with the Central Bank of Cyprus | | 51.166 | (635.048) |
| Other assets | | (24.055) | (4.162.738) |
| Net position in derivative financial instruments | | 628.809 | (813.832) |
| Other liabilities | | 25.684.674 | (4.651.528) |
| **Net cash generated from operations** | | **31.498.268** | **7.960.324** |
| | | | |
| **Cash flows used in investing activities** | | | |
| Purchase of property and equipment | 26 | (1.349.954) | (1.397.041) |
| Purchase of intangible assets | 27 | (5.812.065) | (1.210.884) |
| Purchases of financial assets at fair value through profit and loss | 19 | (539.497.539) | (297.081.890) |
| Proceeds on disposal of financial assets at fair value through profit and loss | 19 | 559.177.250 | 295.445.132 |
| Proceeds from disposal of subsidiaries and associates | | 2.623.183 | - |
| Purchases of debt securities at amortised cost | | (991.871.194) | (898.151.998) |
| Proceeds from disposal of debt securities at amortised cost | 21 | 818.436.808 | 696.905.738 |
| Proceeds from disposal of investments at FVOCI | | 69.764 | - |
| Proceeds from disposal of investment properties | | - | 255.000 |
| Proceeds from disposal of stock of property | 25 | 4.190.578 | 3.478.797 |

The notes on pages 28-131 form an integral part of the consolidated financial Statements.

| | Notes | 2020 € | 2019 € |
|---|---|---|---|
| Proceeds from distribution from fund participation | 9 | 603.994 | 632.228 |
| Dividend received | 9 | 542.948 | 767.057 |
| Acquisition of USB business net of cash acquired (note 2 below) | | - | 155.842.186 |
| **Net cash used in investing activities** | | **(152.886.227)** | **(44.515.675)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds of funding from central banks | 31 | 400.000.000 | - |
| Issue of share capital | 35 | 22.339.960 | 53.999.999 |
| Issue of subordinated bond | 33 | 16.121.386 | - |
| Interest on subordinated bond | 7 | (675.011) | - |
| Lease payments | 29 | (1.216.089) | (1.057.474) |
| **Net cash generated from financing activities** | | **436.570.246** | **52.942.525** |
| | | | |
| **Net increase in cash and cash equivalents** | | **315.182.287** | **16.387.173** |
| **Cash and cash equivalents (Note 16)** | | | |
| At the beginning of the year | 16 | 311.085.151 | 294.697.978 |
| Net increase in cash and cash equivalents | | 315.182.287 | 16.387.173 |
| At the end of the year | 16 | **626.267.438** | **311.085.151** |

The notes on pages 28-131 form an integral part of the consolidated financial Statements.

(1) Non-cash transactions from operating activities

During the year the Group acquired property for the amount of €5,0m (2019: €19,3 m) via the execution of debt for asset swaps as settlement for loan repayments. These are not included in cash flows from operating activities as they do not constitute cash movements.

(2) Acquisition of USB Bank business

The Group discloses in a separate line the total consideration paid and the amount of cash and cash equivalents in the acquired business over which control is obtained during the year 2019.

## 1. CORPORATE INFORMATION

**Country of incorporation**

AstroBank Public Company Limited (the "Bank") was incorporated in Cyprus as a private limited liability company (Reg. No. HE189515), in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The registered office of the Bank is located at 1, Spyrou Kyprianou Street, CY-1065 Nicosia. AstroBank Group (the "Group") comprises the Bank and its subsidiaries.

The subsidiaries of the Group were incorporated in Cyprus in accordance with the provisions of the Cyprus Companies Law, Cap. 113.

**Change of the Parent Bank's name**

On 10 January 2020, the parent Bank changed its name from AstroBank Limited to AstroBank Public Company Limited.

**Principal activities**

The principal activities of the Bank during the year continued to be the provision of banking and financial services.

The principal activities of the subsidiaries, which are unchanged from last year are the holding, administration and disposal of property acquired by the Bank in debt satisfaction. A separate subsidiary is used as an insurance broker.

**Consolidated financial statements**

On 31 May 2021 the Board of Directors of the AstroBank Public Company Limited authorised for issue the Consolidated Financial Statements (the "Financial Statements") for the year ended 31 December 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for properties held for own use, investment properties, investments at fair value through other comprehensive income (FVOCI), financial assets at fair value through profit or loss (FVTPL) and derivative financial assets and derivative financial liabilities that have been measured at fair value and stock of property measured at net realisable value where this is lower than cost.

The Consolidated Financial Statements have been prepared on a going concern basis following Board of Directors and Management assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these consolidated financial statements (Note 4).

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Group presents its assets and liabilities in order of liquidity. An analysis regarding expected recovery or settlement of assets and liabilities within twelve months after the reporting date and more than twelve months after the reporting is presented in Note 48.

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

*Presentation of the Consolidated Financial Statements*
The financial statements are presented in Euro (€), which is the functional currency of the Bank and all amounts are rounded to the nearest thousand, except when otherwise indicated. A dot is used to separate thousands and a comma is used to separate decimals.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2020. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Bank, using consistent accounting policies except for the properties acquired in debt satisfaction. Properties acquired in debt satisfaction are presented as investment properties or stock of property in the financial statements of the subsidiaries and as stock of property in the consolidated financial statements of the Bank.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following elements:

- Power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss.

The details of the subsidiaries whose results are consolidated in these consolidated financial statements are disclosed in Note 39.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Accounting policies and changes in accounting policies and disclosures

The Consolidated Financial Statements contain a summary of the accounting policies adopted in the preparation of the Consolidated Financial Statements. The accounting policies adopted are consistent with those of the previous year, except for the adoption of new and revised standards, interpretations and amendments to existing standards with effect from 1 January 2020 and onwards explained in Note 2.3.1 below.

### 2.3.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. These adoptions did not have a material effect on the financial statements of the Group.

*Conceptual Framework in IFRS standards*
The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. The amendments to the Conceptual Framework did not have a material impact on the results and financial position of the Group.

*IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)*
The amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. The amendments did not have a material impact on the results and financial position of the Group.

*IFRS 3: Business Combinations (amendments)*
The IASB issued amendments in Definition of a Business (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. These amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. The amendments did not have a material impact on the results and financial position of the Group.

Ame*ndments to IFRS 9, IAS 39 and IFRS 7 related to Interest Rate benchmark Reform (the Amendments)*
The Amendments include a number of temporary reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The temporary reliefs relate to issues affecting financial reporting in the period before the replacement of an existing IBOR with an alternative interest rate (pre-replacement issues) and have the effect that IBOR reform should not generally cause hedge accounting relationships to terminate. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. The amendments did not have a material impact on the results and financial position of the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Standards and Interpretations that are issued but not yet effective

### 2.4.1 Standards and Interpretations issued by the IASB and adopted by the EU

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB"), but are not yet effective for annual periods beginning on 1 January 2020. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

*IFRS 4: Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS (amendments)*
The IASB published the amendments to IFRS 4 'Extension of the Temporary Exemption from Applying IFRS 9' to defer the fixed expiry date of the amendment to annual periods beginning on or after 1 January 2023. The Group does not expect these amendments to have an impact on its results and financial position.

*Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
The changes in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities: introduction of a practical expedient for modifications required by the IBOR reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

- Hedge accounting requirements: hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

*Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (continued)*

- Disclosures: the amendments require that an entity discloses information about: (i) how the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition; (ii) quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the IBOR reform, disaggregated by significant interest rate benchmark; and (iii) to the extent that the IBOR reform has resulted in changes to an entity's risk management strategy, a description of these changes and how the entity is managing those risks.

The amendments are effective for annual periods beginning on or after 1 January 2021 and are to be applied retrospectively, with earlier application permitted. Restatement of prior periods is not required. The Group does not expect these amendments to have an impact on its results and financial position.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Standards and Interpretations that are issued but not yet effective (continued)**

**2.4.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU**

*IFRS 17: Insurance Contracts*
The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In June 2019, the IASB issued an Exposure Draft which proposes some amendments to IFRS 17, including a proposal to defer the mandatory effective date of IFRS 17 by one year so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. In March 2020 the IASB discussed and voted in favour of the amendment to IFRS 17 to defer its effective date (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. IFRS 17 replaces IFRS 4 and it establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. IFRS 17 divides insurance contracts into groups it will recognise and measure at a risk-adjusted present value of the future cash flows plus an amount representing the unearned profit in the group of contracts (the contractual service margin). It also recognises profit from a group of insurance contracts over the period the entity provides insurance coverage and as the entity is released from risk. If a group of contracts is expected to be onerous over the remaining coverage period, an entity recognises the loss immediately. The standard contains a core measurement approach, the 'general model', as well as an adaptation of the general model, the 'variable fee approach' that should be applied to certain types of contracts with direct participation features. If certain criteria are met, an entity may apply a simplified measurement approach, the 'premium allocation approach', which allows an entity to measure the amount of remaining coverage by allocating the premium over the coverage period (mainly applicable for non-life contracts with up to one-year coverage). This standard is not relevant to the Group's operations.

*IAS 1 Presentation of Financial Statements: classification of Liabilities as Current or Non-current (amendments)*
The IASB issued amendments to IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: (a) what is meant by a right to defer settlement (b) that a right to defer must exist at the end of the reporting period (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument. The amendments are effective for or annual periods beginning on or after 1 January 2023, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

*IFRS 3: Business Combinations (amendments)*
The IASB has published 'Reference to the Conceptual Framework (Amendments to IFRS 3)' with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing the accounting requirements for business combinations. The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The Group does not expect these amendments to have a material impact on its results and financial position.

*IAS 16: Property, Plant and Equipment – Proceeds before Intended Use (amendments)*
The amendments to the standard prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. They are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. An entity will apply the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The Group does not expect these amendments to have a material impact on its results and financial position.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Standards and Interpretations that are issued but not yet effective (continued)

### 2.4.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU (continued)

*IAS 37: Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract (amendments)*
The changes in Onerous Contracts — Cost of Fulfilling a Contract specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

*Annual Improvements to IFRS Standards 2018–2020 Cycle*

Annual Improvements to IFRS Standards 2018–2020 makes amendments to the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: the amendment permits a subsidiary that applies IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

- IFRS 9 Financial Instruments: the amendment clarifies which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- IFRS 16 Leases: the amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- IAS 41 Agriculture: the amendment removes the requirement of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique, which ensures consistency with the requirements in IFRS 13.

*Annual Improvements to IFRS Standards 2018–2020 Cycle (continued)*
The amendments to IFRS 1, IFRS 9, and IAS 41 are all effective for annual periods beginning on or after 1 January 2022, with earlier application permitted, whereas the amendment to IFRS 16 only regards an illustrative example. The Group does not expect these amendments to have a material impact on its results and financial position.

*IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2: Disclosure of Accounting policies (amendments)*
The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have an impact on its financial results and financial position.

*IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (amendments)*
The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have a material impact on its financial results and financial position.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If the business combination is achieved in stages, the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognised in the consolidated income statement. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

### 2.6 Investment in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. In the Consolidated Financial Statements, the Group's investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of the results of the associate is included in the consolidated income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not tested for impairment separately.

Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement outside operating profit and represents profit or loss before tax. The associated tax charge is disclosed in income tax.

The Group recognises its share of any changes in the equity of the associate through the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The Group applies equity accounting only up to the date an investment in associates meets the criteria for classification as held for sale. From then onwards, the investment in associates is measured at the lower of its carrying amount and fair value less costs to sell. The financial statements of the associates are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Foreign currency translation

a. Functional and presentation currency
The consolidated financial statements of the Group are presented in Euro (functional and presentation currency), which is the currency of the primary economic environment in which the Bank operates.

b. Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the consolidated income statement (in "Net gains on financial instrument transactions and disposal of subsidiaries and associates").

### 2.8 Revenue from contracts with customers

The Group recognises revenue when control of the promised goods or services are transferred to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The new revenue recognition model introduced, applies the following five steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The performance obligation notion is new and in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

#### 2.8.1 Contract balances

A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Receivables are recorded where the Group provides services to clients, consideration is due immediately upon satisfaction of a point in time service or at the end of a pre specified period for an over time service. It is the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities relate to payments received from customers where the Group is yet to satisfy its performance obligation. Contract liabilities are recognised as revenue when the Group performs under the contract. Contract assets and receivables are recorded within "other assets" and contract liabilities within "other liabilities" in the consolidated statement of financial position.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Revenue from contracts with customers (continued)

#### 2.8.2 Rental income

Rental income from investment properties or stock of properties is accounted for on a straight-line basis over the period of the lease and is recognised in the consolidated income statement in 'Other income'.

#### 2.8.3 Dividend income

Dividend income is recognised in the consolidated income statement in "Other income" when the Group's right to receive payment is established.

#### 2.8.4 Gains from the disposal of investment property and stock of property

Net gains on disposal of investment property or stock of property are recognised in the consolidated income statement in "Other income" when the buyer accepts ownership of the property and the control of the property to the buyer is completed.

### 2.9 Interest income and other interest income

Interest income is recognised in the consolidated income statement by applying the effective interest rate (EIR) to the gross carrying amount of financial asset other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset, being the gross carrying amount less any allowance. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount.

Interest income on purchased or originated credit-impaired (POCI) financial assets is recognised using the Credit Adjusted Effective Interest Rate calculated at initial recognition. The Credit Adjusted Effective Interest Rate is applied on the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance.

Any recoveries of interest from settled or cured exposures is recognised as a positive movement in expected credit losses. This is recognized through the 'Reversal of expected credit losses to cover credit risk on loans and advances' in the consolidated Income statement.

Interest income from financial assets at amortised cost and financial assets at FVOCI is presented separately within the caption "interest income".

Interest income from debt securities classified at FVTPL calculated by applying the coupon rate to the notional amount of the financial asset. Interest income from financial assets at FVTPL is presented within the caption "Other interest income".

**The effective interest rate method**
Interest income and expense are recognised in the consolidated income statement by applying the effective interest rate (EIR) for all financial instruments measured at amortised cost and debt instruments at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

**Negative interest income**
The Group holds loans and advances to banks and central banks with negative interest rates. Negative interest income relating to these other assets is recorded in 'Interest expense' in the consolidated income statement.

### 2.10 Interest expense

Interest expense is recognised in the consolidated income statement for all interest bearing assets and liabilities on an accrual basis using the effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Interest expense (continued)

**Positive interest expense**

The Group has funding from central banks with negative interest rates. The Group classifies the interest on these liabilities within interest income. Negative interest is disclosed in Note 7.

### 2.11 Fee and commission income and expense

#### 2.11.1 Fee and commission income

Fee and commission income relates to loans and advances, credit cards, letters of guarantee documentary credits and transfers of money and other banking services as well as through insurance intermediation activities.

The Group earns fee income from a range of services it provides to its clients. Fee income can be divided into two categories:

- fees earned from services that are provided over a certain period of time, such as asset management and custody services
- fees earned from point in time services such as executing transactions and brokerage fees.

*Over time services*

Fees earned from services that are provided over a certain period of time are recognised pro-rata over the service period.

*Point in time services*

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

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

#### 2.11.2 Fee and commission expense

Fees and commission expense are generally recognised in the year when the service has been provided to the clients or to the Group respectively. Fees and commission expense relate to loans and advances, credit cards, letters of guarantee documentary credits and transfers of money and other banking services as well as through insurance intermediation activities.

### 2.12 Tax

*Current income tax and deferred tax*
The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in consolidated other comprehensive income or directly in equity. In this case, the tax is also recognised in consolidated other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, the Group establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred 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 transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

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

Deferred 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 Group where there is an intention to settle the balances on a net basis.

*Indirect Tax Value Added Tax (VAT)*

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 receivables or payables in the consolidated statement of financial position.

### 2.13 Special levy

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

Special levy is recognised in the consolidated income statement in "Other operating expenses".

### 2.14 Financial instruments - initial recognition

#### 2.14.1 Date of recognition

"Balances with central banks", "Funding from central banks", "Placements with other banks", "Deposits from banks", "Loans and advances to customers", "Deposits and other customer accounts", are recognised when cash is received by the Group or advanced to the borrowers. All other financial assets and liabilities are initially recognised on the trade date. Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.14 Financial instruments - initial recognition (continued)**

**2.14.2 Initial recognition and measurement of financial instruments**

The classification of financial assets on initial recognition depends on their contractual terms and the business model for managing the instruments, as described in" Classification and measurement of financial assets and liabilities" section below.

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

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in "Net gains on financial instrument transactions" caption. In the cases, where the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

**2.14.3 Measurement categories of financial assets and liabilities**

Financial assets are measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The Group classifies and measures its derivatives and trading portfolios at FVTPL.

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost or at FVTPL when they are held for trading or relate to derivative instruments.

**2.15 Classification and measurement of financial assets and liabilities**

The classification and measurement of financial assets depends on how these are managed as part of the Business Models the Group operates under and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)).

*Business model assessment*
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Classification and measurement of financial assets and liabilities (continued)

*Business model assessment(continued)*

On transition to IFRS 9, business models were determined on the date of initial application based on facts and circumstances that existed on 1 January 2018 and are re-assessed when the Bank undergoes any substantial operational or strategic changes and changes that affect the business model of financial assets.

*Contractual cash flows characteristics test (SPPI assessment)*

The Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding (SPPI criteria).

For the purpose 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, for the credit risk associated with the principal amount outstanding during a particular period of time and for the other basic lending risks and costs (i.e. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change contractual cash flows such that it would not meet the SPPI criteria and be inconsistent with a basic lending arrangement. In making the assessment, the Group considers:

- contingent features;
- leverage features;
- prepayment and extension terms;
- convertible features;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money

In addition, where the contractual terms of a financial asset introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

### 2.15.1 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 that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., 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 expected to have a similar response to changes in market factors.

- It is settled at a future date.

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value.

Revaluations of currency derivatives are included in the consolidated income statement in "Net gains on financial instrument transactions".

Interest income and expense are included in the "Other interest income" captions respectively in the consolidated income statement.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.15 Classification and measurement of financial assets and liabilities (continued)**

**2.15.2 Financial assets measured at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions:

- 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.

This classification relates to cash and balances with central banks, placements with other banks, loans and advances to customers that pass the SPPI test, debt securities held under the 'Hold to collect' business model and other financial assets. These financial assets are measured at amortised cost using the effective interest rate method (EIR) less allowances for expected credit losses (ECL).

Amortised cost is calculated by taking into account any discount or premium on acquisition that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "impairment losses on financial assets".

**2.15.3 Debt instruments measured at FVOCI**

The Group applies the category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- 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 gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in consolidated income statement in "Interest income" and "Net gains on financial instrument transactions" respectively . Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

**2.15.4 Financial assets or financial liabilities held for trading**

Financial assets held for trading represent assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in "Net gains on financial instrument transactions" in the consolidated income statement. Interest income is included in the caption "Net interest income".

This classification relates to debt instruments that have been acquired principally for the purposes of selling or repurchase in the near term.

**2.15.5 Financial assets and financial liabilities at fair value through profit or loss**

Financial assets and financial liabilities 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. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.15 Classification and measurement of financial assets and liabilities (continued)**

**2.15.5 Financial assets and financial liabilities at fair value through profit or loss (continued)**

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Such designation is determined on an instrument-by-instrument basis.

Financial assets and financial liabilities at FVTPL are recorded in the consolidated balance sheet at fair value. Changes in the fair value are recognised in "Net gains on financial instrument transactions" in the consolidated income statement.

Interest income and expense are included in the captions 'Income similar to interest income' and 'Interest expense' respectively in the consolidated income statement according to the terms of the relevant contract.

Dividend income is recognised in 'Other income' in the consolidated income statement when the right to receive payment has been established.

Financial assets mandatorily classified at FVTPL include certain investment fund holdings and other securities for which the contractual cash flows do not meet the SPPI test, or the financial assets are part of a portfolio under a business model that is to manage and whose performance is evaluated on a fair value basis.

***2.15.6 Equity instruments measured at FVOCI***

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in consolidated income statement in "Other income" when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

***2.15.7 Other financial liabilities***

Other financial liabilities include "Deposits and other customer accounts", "Amounts due to other banks and deposits from banks" and "other liabilities".

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers and deposits by banks is at amortised cost, using the effective interest method.

**2.16 Reclassification of financial assets and liabilities**

The Group does not reclassify its financial assets subsequent to their initial recognition apart from exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.17 Derecognition of financial assets and financial liabilities

#### 2.17.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group transfers a financial asset if, and only if, either:

- The Group transfers its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but assumes an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

A transfer only qualifies for derecognition if either:

- The Group transfers substantially all the risks and rewards of the asset; or
- The Group neither transfers nor retains substantially all the risks and rewards of the asset, but it transfers control of the asset.

#### 2.17.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

### 2.18 Forborne and modified loans

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.

In the event that the terms and conditions of a financial asset are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. A derecognition of a financial asset (or part of a financial asset) and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows.

Where the modification does not result in derecognition, the Group recognises a modification gain or loss, based on the modified cash flows discounted at the original effective interest rate and the existing gross carrying value of the financial asset. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired as defined are no longer present. A modified financial asset will transfer out of Stage 2 when it no longer satisfies relative thresholds set to identify significant increases in credit risk, which are based on changes days past due and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

In the case of a new financial asset classified at amortised cost or FVOCI, an assessment is performed on whether it should be classified as Stage 1 or POCI for ECL measurement. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Impairment of financial assets

### 2.19.1 Overview of ECL principle

The Group uses a forward looking ECL model, requiring judgement, estimates and assumptions in determining the level of ECLs. The ECL model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are measured at amortised cost or FVOCI ;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

Equity instruments are not subject to impairment assessment.

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).

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

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

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised.

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

POCI: Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses. The Group only recognises the cumulative changes in lifetime ECLs since initial recognition.

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet. For financial assets measured at fair value through other comprehensive income (OCI) the carrying value is not reduced, but the accumulated amount of impairment allowance is recognised in OCI. For off-balance sheet instruments, accumulated provisions for ECL are reported in ‘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 Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL for the year is recognised within the consolidated income statement in ‘Expected credit Losses to cover credit risk on loans and advances to customers’.

The Group calculates 12-month ECLs and lifetime ECLs 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 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, the business prospects of the customer).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Impairment of financial assets (continued)

### 2.19.1 Overview of ECL principle (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, exposure class and portfolio type. As part of the recalibration of the ECL collective model during the fourth quarter of 2020, the portfolio of Legal entities was further analysed by industry sector.

### 2.19.2 Significant increase in credit risk

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

The Group uses staging 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 arrears
- Forbearance flag: A performing account with an active forbearance flag in line with the European Banking Authority (EBA) definition
- Facilities with at least two instances of 30 days past due in the last 12 months
- Facilities with at least one recent instance of forbearance in the last 12 months
- Facilities with higher than a specific internal credit rating level as developed by the Bank for assessing the credit quality of the customers
- For legal entities: Deterioration by 3 notches or more in the customers' rating compared to the latest of a) customers' rating at the inception of the loan or b) 1 January 2018 rating and the final rating is greater than a specific level based on the internal credit rating of the Bank.
- The probation period for transferring exposures from Stage 3 to Stage 1 is two quarters. During the probation period the exposures are classified as Stage 2.

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

Low credit risk simplification is adopted for debt security instruments, loans and advances to 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 to such an extent that the new rating relates to a riskier category (i.e. from a non-investment grade to speculative and then to highly speculative).

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Impairment of financial assets (continued)

### 2.19.3 Credit impaired and definition of default

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

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

(i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.

(ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, 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 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 (different capital thresholds apply according to the restructuring type).

At the time an account ceases to be considered as NPE it exits Stage 3. When an account exits Stage 3, it is transferred to Stage 2 for a probationary period of 6 months. At the end of this period, the significant increase in credit risk (SICR) trigger is activated as described in Note 2.17.2 and the loan is either transferred to Stage 1 or remains in Stage 2. The reversal of previous unrecognised interest on loans and advances to customers that no longer meet Stage 3 criteria is presented in 'Credit losses to cover credit risk on loans and advances to customers'.

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**2.19.3 Credit impaired and definition of default (continued)**

**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). Based on the new EBA guidelines the following apply:

- A new counter for the 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."

**2.19.4 Scenarios and forward-looking inputs**

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

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, unemployment rates, industrial production, commercial price indices and residential price indices. This process involves consideration of external actual and forecast information provided by the Central Bank of Cyprus, Moody's Analytics and other providers of macroeconomic forecasts.

Predicted relationships between the key indicators and default and loss rates on the portfolios of financial assets have been developed based on an analysis of historical data over the past 10 years.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date. Overlays performed are set out in Note 6.

**2.19.5 Inputs into measurement of ECLs**

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

- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**2.19.5 Inputs into measurement of ECLs (continued)**

*a. 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 product type criteria and taking into consideration the Group's historical default rates and forward looking information based on macroeconomic inputs. For the purposes of the PD estimation the Group uses the EBA definition of NPE as its definition of default. As a result the Group has applied a methodology that suits the Group's portfolio, complexity and data availability.

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

- Use historic default rates to estimate the through the cycle probabilities of default;
- Establish a model linking the default rates to macroeconomic variables thus, mapping external market dynamics onto Group'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.

PDs are estimated on a number of observation basis in light of the limited number of observations. For Legal Entities the PDs are estimated at a debtor level and at a facility level for all other segments.

*b. 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 cash recovery or realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

*c. Exposure at default*

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 and non-revolving exposures. In case of revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. The credit conversion factor model is derived based on historical data from the last 6 years. For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In 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.

**2.19.6 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 Group has the right to limit or to cancel the exposure. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19.7 Purchased or originated credit impaired financial assets (POCI)

POCI financial assets are recorded at fair value on initial recognition. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For POCI financial assets, the Group only recognises the cumulative changes in lifetime ECL since initial recognition in the loss allowance. POCI remain a separate category until derecognition.

### 2.20 Write-offs

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such cases, financial assets are written off either partially or in full. Write off refers to both contractual and non-contractual write offs. Write-offs and partial write-offs represent derecognition/ partial derecognition events. If the amount of write-offs is greater than the amount of accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Recoveries, in part or in full, of amounts previously written-off are credited to the consolidated income statement in "Expected credit losses to cover credit risk on loans and advances to customers".

### 2.21 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or 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 Group or the counterparty.

### 2.22 Hedge accounting

IFRS 9 requires the Bank to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess hedge effectiveness. IFRS 9 also introduced new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

The Bank designated certain interest rate swaps as hedging instruments in respect of interest rate risk in a fair value hedges. The hedged items are certain fixed rate Cyprus Government Bonds (CGBs) measured at amortised cost.The Bank ensures that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and applies a qualitative and forward looking approach to assess hedge effectiveness in accordance with IFRS9 requirements.

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to the consolidated income statement, over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognized immediately in the consolidated income statement.

### 2.23 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repos) at a specific future date are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet, reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method. Repos outstanding at the reporting date relate to agreements with financial institutions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.23 Repurchase and reverse repurchase agreements (continued)

Securities purchased under agreements to resell (reverse repos) at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

### 2.24 Leases - The Group as a lessee

The Group recognises Right-of-use assets and lease liabilities for contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has the right to direct the use of an identified asset throughout the period of use when it has the right to direct how and for what purpose the asset is used and has the right to change the purpose, throughout the period of use (i.e. the decision-making rights that most significantly affect the economic benefits that can be derived from the use of the underlying asset). Essentially, this right permits the Group to change its decisions throughout the contract term without approval from the lessor.

*Right-of-use assets*

The right-of-use is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. The right of use asset should also be adjusted to reflect the favorable terms of the lease when compared with market terms.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

*Lease liabilities*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. The Group uses its incremental borrowing rate (IBR) as the discount rate given that the interest rate implicit in the lease cannot be readily determined.

The lease liability is subsequently increased with the accrual of interest throughout the life of the lease and is reduced when payments are made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The IBR used as of 1 January 2019 was based on the yield of covered bonds issued by comparable European banks and which was adjusted upwards for difference in country risk, the lack of liquidity in the Cypriot market (and hence low marketability of any covered bonds that the Group may issue), the relatively small size of the Bank, as well as the potentially lower credit rating that agencies would assign to the Group’s issued debt compared to the credit rating associated with the selected covered bonds. The resulting yield curve was considered to reflect the Group’s incremental borrowing rate.

*Short-term leases and leases of low-value assets*

The Group elected to use the recognition exemption for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short term leases’), and lease contracts for which the underlying asset is of low value (‘low value assets’). Payments associated with short term leases and leases of low value assets are recognised on a straight line basis as an expense in the consolidated income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.24 Leases - The Group as a lessee (continued)

*Lease term*

Leases are monitored for significant changes that could trigger a change in the lease term and at the end of each reporting period and the impact on the lease liability and the RoU asset is reassessed. Lease liability is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured a corresponding adjustment is made to the RoU asset and / or profit or loss, as appropriate.

The lease term is calculated as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (if reasonably certain to be exercised), or any periods covered by an option to terminate the lease (if reasonably certain not to be exercised).

When a lease contains an extension or termination option that the Group considers reasonably certain to be exercised, the expected lease payments or costs of termination are included within the lease payments in determining the lease liability.

### 2.25 Leases - The Group as lessor

#### 2.25.1 Finance leases

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in the consolidated balance sheet as an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the consolidated income statement.

#### 2.25.2 Operating leases

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the lease.

### 2.26 Intangible assets

An intangible asset is recognised when it is probable that future economic benefits will arise through its use.

The acquisition cost of an intangible which will generate future economic benefits for the Group is recognised as an intangible asset. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over a period of 3 years.

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

### 2.27 Property and equipment

Property and equipment are initially measured at cost.

Land and buildings are subsequently measured at fair value, based on periodic valuations by external independent professional valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. Revaluations are carried out every year to ensure that the carrying amount does not differ materially from the fair value determined at the reporting date. A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss,

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.27 Property and equipment (continued)

except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus. All other property and equipment items are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount exceeds the recoverable amount then the property and equipment items are written down to their recoverable amount. The recoverable amount is the higher of fair value of the assets less cost to sell and its value in use.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset of property and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other property and equipment is calculated using the straight-line method, over their estimated useful lives. The annual depreciation rates are as follows:

- Buildings 2%
- Leasehold improvements 10%
- Furniture, fittings and equipment 10%-20%

The residual values and useful lives of the property and equipment are reviewed and adjusted, if appropriate, at each reporting date. Any gains or losses on disposals of property and equipment are included in the consolidated income statement in "Other income" and are determined by the difference between the selling price and the carrying amount. When revalued assets are disposed, the amounts included in the fair value reserves are transferred to retained earnings/accumulated losses.

### 2.28 Impairment of non-financial assets

Intangibles that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment or more frequently if events and changes in circumstances indicate that they might be impaired. 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). Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.29 Investment property

Investment property comprises land and buildings that are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily for capital appreciation or earning rental income.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in "Other income". Valuations are carried out by independent qualified valuers applying valuation models recommended by the International Valuation Standards Council.

When the use of the property changes such that it is reclassified as property and equipment or stock of property, its fair value at the date of reclassification becomes its cost for subsequent reporting.

Investment properties held under operating leases by third parties are classified as investment properties in the consolidated statement of financial position. The rental income arising from operating leases is recognised on a straight-line basis over the duration of the lease.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### 2.30 Stock of property

The Group in its normal course of business acquires properties in exchange of debt, which are held either directly by the Bank or by entities set up and controlled by the Group for the sole purpose of managing these properties with an intention to be disposed of. These properties are recognised in the Consolidated Financial Statements as 'Stock of property', reflecting the substance of these transactions.

Stock of property is initially measured at cost and subsequently measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less the estimated costs necessary to make the sale.

If net realisable value is below the cost of the stock of property, impairment is recognised in 'Impairment of stock of property and leasehold improvements' in the consolidated income statement.

### 2.31 Mandatory cash balances with Central Bank of Cyprus (minimum reserve account)

The mandatory cash balances with the Central Bank of Cyprus are carried at amortised cost and are not available for financing the daily operations of the Bank, and as a result, are not considered part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

### 2.32 Cash and cash equivalents

Cash and cash equivalents comprise balances with maturity of less than three months since acquired. Specifically they include cash in hand, deposits with other banks and other placements with original maturities of less than three months.

### 2.33 Due to Banks and customers

Due to Banks and due to customers are recognised initially at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the consolidated income statement using the effective interest method. Due to banks and due to customers are derecognised when they are extinguished, that is, when the obligation is discharged.

### 2.34 Financial guarantees, letters of credits and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and ECL allowance. ECL resulting from financial guarantees is recorded in 'Expected credit loss to cover credit risk on contractual commitments and guarantees'.

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

Corresponding ECL is presented together with the loss allowance of the relevant on balance-sheet exposure as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL relating to these other loan commitments is recorded in 'Credit losses to cover credit risk on loans and advances to customers' in the consolidated income statement.

When a customer draws on a commitment, the resulting loan is presented within loans and advances to customers.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.35 Provisions for pending litigation, claims, regulatory and other matters

Provisions in respect and legal obligations are recognised when: a) the Group has a present legal or constructive obligation as a result of past events, b) it is probable that an outflow of resources will be required to settle the obligation and c) the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there is a number of similar obligations, the probability that an outflow will be required to settle the obligation is determined by taking into consideration the classification of the obligations as a total. The provision is included even if the probability of an outflow due to an obligation included within the total obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.36 Employee Benefits

The Group operates a defined contributions pension plan. A defined contributions plan is a pension plan under which the Bank and its employees pay fixed contributions into a separate fund. The Group's contributions are recognised in the period they relate to and are included in staff costs. For a defined contributions plan the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits that correspond to their service in the current and prior periods.

Contributions are recognised as staff retirement expenditure in the period in which they are due. Prepaid contributions are recognised as an asset to the extent there will be cash refund or reduction in the future payments.

The Group and the employees contribute to the Government Social Insurance Fund based on employees' salaries in accordance with legal requirements.

### 2.37 Share capital

1. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium.

2. Share premium is the difference between the fair value of the consideration receivable for the issue of the shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

3. Preference shares are classified as equity, as distributions to holders of the preference shares whether cumulative or non-cumulative are at the discretion of the issuer.

4. The dividend distribution to the Bank's ordinary shareholders is recognised as a liability in the period in which the dividend is approved by the Annual General Meeting of the Bank's shareholders or, in the case of an interim dividend, by the Bank's Board of Directors.

### 2.38 Provisions for pending litigation, claims, regulatory and other matters

Provisions for pending litigation, claims, regulatory and other matters against the Group are made when: (a) there is a present obligation (legal or constructive) as a result of a past event, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the facts and circumstances of any litigation proceedings.

## 3. COMPARATIVES

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

## 4. GOING CONCERN

The Board of Directors and Management have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these consolidated financial statements.

The Board of Directors and Management, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity and the current economic developments in order to make projections for future economic conditions of the environment in which it operates.

Based on the above and taking into account:

- the Bank's capital adequacy position (Note 41);
- the Bank's liquidity position (Note 40);
- the measures taken by the Bank to protect its employees from COVID-19, the implementation of actions under the Business Continuity Plan and the activation of the ability for teleworking at a large scale whilst ensuring that critical operations are performed;
- the decisions of the Government of the Republic of Cyprus to adopt a series of fiscal and monetary measures to stimulate the economy, as well as the decisions of the European banks' supervisory authorities to provide liquidity and capital adequacy support to the extent that this is affected by the outbreak of the COVID-19. Due to the dynamic nature of COVID-19, the expected impact on the future profitability is difficult to estimate. The Bank monitors the situation, taking all necessary measures to mitigate the impact on its operations and financial performance.

The Bank estimates that, at least for the next 12 months, the conditions for the application of the going concern principle for the preparation of its financial statements are met.

## 5. OPERATING ENVIRONMENT

The Cyprus economy, despite its positive growth rates between 2015-2019, declined steeply by 5,1% in 2020 according to the Cyprus Statistical Service. However, this has been a better performance than initially anticipated with the decline driven by the trade and tourism sectors, construction activity, industry and entertainment related services sectors.

Unemployment increased modestly to 7,6%, in 2020 according to according to the European Commission (European Economic Forecast, Spring 2021), from 7,1% in 2019. Consumer prices declined by 1,1% on average in 2020 as per the Bank of Cyprus, owing to the sharp decline in global energy prices, the hit on domestic demand caused by the COVID-19 pandemic and the cut to the VAT rate for the tourism and hospitality sector. The current fiscal and monetary stimulus have not fed into higher prices and inflation is likely to rise only modestly in the second half of 2021 as economic activity accelerates and the temporary reduction in the VAT income is reversed.

In response to the COVID-19 pandemic the Cyprus Government's fiscal package in year 2020 was large, at approximately 5,8% of GDP (May 2020: for €1,2 billion with a GDP in 2020 of 20,8 billion), according to Cyprus Ministry of Finance, and included income support for households, wage subsidies for businesses and grants to small businesses and the self-employed.

A loan moratorium for interest and principal repayments on loans for individuals and businesses was also put in place until the end of 2020. In January 2021, a second moratorium for the period until end-June 2021 was launched for borrowers impacted by the second lockdown. Eligible borrowers are entitled to a total moratorium not exceeding nine months, including the moratorium offered in 2020.

There has been significant progress in the banking sector since the crisis in 2013, however banking remains vulnerable to the economic conditions amidst prevailing uncertainties and slow progress on further reform.

Cyprus expects to obtain grants of up to €1,2 billion according to European Commission (Press release, "Cyprus submits official recovery and resilience plan" dated 17 May 2021) or about 5,0% of GDP, in the budget period 2021-2027. However, the effectiveness of the funds in the medium and the long-term will depend on the implementation of long-delayed structural reforms, such as improving the efficiency of the judiciary and of the public and local administration.

## 5. OPERATING ENVIRONMENT (continued)

Public finances deteriorated markedly in 2020 as a result of the COVID-19 pandemic and the economic slump that ensued in the year. It is estimated that the budget deficit deteriorated from a surplus of 1,5% of GDP in 2019 to a deficit of 5,7% of GDP in 2020 according to according to the European Commission (European Economic Forecast, Spring 2021). European Economic Forecast, Spring 2021. The government will be providing additional support to the economy, for at least until the end of May 2021. As a result, the trend of lower revenues and higher spending will continue through the first half of 2021 at least. The Government's budget position is expected to improve and the deficit to gradually shrink in the medium term as the economy recovers and spending is scaled back. Public debt has risen to about 118,2% of GDP (Cyprus Statistical Service). However, this is seen as temporary driven by fiscal measures to mitigate the effects of the COVID-19 pandemic.

The monetary response of the European Central Bank (ECB) to the COVID-19 pandemic has been extremely accommodative. In addition to negative interest rates and a renewed quantitative easing, most importantly, the ECB introduced the Pandemic Emergency Purchase Programme (PEPP) and boosted its refinancing operations for commercial banks. The ECB also adopted dual rates and eased the rules around its collateral framework. The ECB provided further stimulus in December 2020, including a €500 billion increase in the size of the PEPP to €1,85 trillion and extending its duration until March 2022. The ECB remains strongly committed to preventing financial fragmentation in the Eurozone by keeping interest rates low and the risk of a sovereign debt crisis marginal.

Cyprus' reliance on external demand for tourism and travel means that economic recovery will be rather prolonged. Real GDP is forecast to grow by 3,2% in 2021 and by another 3,8% in 2022 according to the European Commission (European Economic Forecast, Spring 2021). Thus, real GDP can be expected to recover to pre-pandemic levels within 2022.

The medium-term forecasts for the Cyprus economy are subject to downside and upside risks. On the upside, the anticipated recovery in the EU may be stronger. On the downside, vaccinations may take longer to complete and may not be as effective as now anticipated, especially if virus mutations spread. In this context it will take longer for tourism activity to recover leading to a more permanent loss of productive capacity. At the same time, fiscal policies may prove less effective in the future, and more difficult to reverse, ushering in a longer period of budget imbalances and rising debt ratios. This may have implications for debt servicing costs. The UK after Brexit may take longer to normalise its economy which may give rise to a period of poor performances and exchange rate pressures. Geopolitical tensions in the eastern Mediterranean may escalate, delaying hydrocarbon exploitation.

*Sovereign ratings*

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system.

S&P Global Ratings maintains an investment grade rating of BBB- with a stable outlook since September 2018. The rating and the outlook were affirmed in March and September 2020 and March 2021. In March 2021, S&P Global Ratings affirmed its rating (BBB-) and its outlook to stable, balancing the risks from the pandemic's protracted adverse impact on growth, fiscal, and banking sector performance against benefits of the EU's Recovery and Resilience Facility (RRF) transfers, as well as further improvement in the government's debt profile.

Fitch Ratings maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020 and March 2021. Its outlook was upgraded to positive in October 2019 and revised to stable in April 2020 and affirmed in March 2021, reflecting the significant impact the global COVID-19 pandemic might have on the Cyprus economy and fiscal position.

Moody's Investors Service maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. More recently in January 2021, Moody's issued a revised credit opinion on the Cyprus Sovereign, maintaining the positive rating outlook. This was driven by the substantial reduction of non-performing exposures and a favourable outlook on public debt reduction expected to resume after the COVID-19 crisis. The large increase in debt related to the COVID-19 pandemic is expected to be transitory in part because of Cyprus' large fiscal surplus going into the pandemic.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent obligations and liabilities at balance sheet date and the reported amounts of income and expenses during the year of reporting. Despite the fact that these assumptions are based on the best possible knowledge of the Group's Management and the Board of Directors regarding current conditions and activities, actual results may eventually differ from those estimates.

Accounting estimates and judgments are reviewed and evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The assessment of these factors determine the basis under which judgement is being applied in connection with accounting principles affecting the value of assets and liabilities which are not immediately apparent from other sources.

### 6.1 Classification of loans and advances to customers

The Group exercises judgement upon determining the classification of loans and advances to customers, which relate to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. Further, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rates could significantly affect future cash flows.

### 6.2 Calculation of expected credit losses

The calculation of ECLs requires management to apply significant judgement and make estimates and assumptions. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECLs to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies. Elements of ECL models that are considered accounting judgements and estimates include:

*Significant credit risk increase for loans and advances to customers*
The Group 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 Group's Management and endorsed by the Group Provisions Committee.

*Determination of probability of default (PD)*
Determining the probability of default (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.

*Scenarios and macroeconomic factors*
The Group determines the ECL, which is a probability-weighted amount, by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on Management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in 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 and endorsed by the Group Provisions Committee.

The outlook for the global economy has deteriorated markedly in 2020 as a result of the COVID-19 pandemic and the lockdown measures to contain it that led to significant disruptions in economic activity. Worst outcomes were avoided by aggressive and excessively expansive monetary and fiscal policies. As a result, the Group updated its forward-looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments at the national and the EU level, for mitigating the consequences of the pandemic.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### 6.2 Calculation of expected credit losses (continued)

The Group uses three different economic scenarios. For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios; base (50% weight), pessimistic (25% weight) and optimistic (25% weight). For collectively assessed customers the calculation is also the weighted average of three scenarios: base, adverse and optimistic.

Under the pessimistic scenario operational cash flows are decreased by 25% (2019: decreased by 25%), applied haircuts on real estate collaterals are increased by 10% (2019: 10%) and the timing of recovery of collaterals is increased by 1 year (2019: 1 year). Under the optimistic scenario no increase was applied to operational cash flows (2018: 25% increase), applied haircuts are decreased by 5% (2019: 5%) and the timing of recovery of collaterals is decreased by 1 year (2019: 1 year). Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions.

Under all scenarios, selling costs are assumed to be 4% (2019: 4%) of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values.

For cases that the foreclosure or debt to asset swap ("DFAS") process is assessed to be the most relevant strategy, no haircut is applied as the Bank uses the expected foreclosure/DFAS value based on the specific facts of each case (2019: for the foreclosure process a 20% haircut on open market values was applied irrespective of the type and location of the property and for the DFAS process no haircut was applied as the Bank used the expected DFAS values ). The corresponding haircuts for the pessimistic scenario are increased by 10% (2019: 10%) and for the optimistic scenario are decreased by 5% (2019: 5%).

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. During the year qualitative adjustments or overlays were applied to the positive future property value capping it to 0% for all scenarios and to all loans and advances to customers which are secured by property collaterals.

For all real estate collaterals, the following haircuts were applied to the indexed open market values as at 31 December 2020 and 31 December 2019:

| 31 December 2020 | Average haircut for urban locations | Average haircut for rural locations |
|---|---|---|
| Residential Real Estate (Completed) | 8% | 13% |
| Residential Land | 14% | 20% |
| Commercial Real Estate (Completed) | 14% | 21% |
| Commercial Land | 16% | 22% |
| Other Land, Agriculture & Protection Zone Real Estate | 31% | 31% |
| Semi-completed Real Estate (residential & commercial) | 18% | 21% |
| Special-use Real Estate (i.e. Hotels, shopping malls) | 9% | 15% |

| 31 December 2019 | Average haircut for urban locations | Average haircut for rural locations |
|---|---|---|
| Residential Real Estate (Completed) | 7% | 12% |
| Residential Land | 11% | 18% |
| Commercial Real Estate (Completed) | 10% | 18% |
| Commercial Land | 12% | 18% |
| Other Land, Agriculture & Protection Zone Real Estate | 25% | 25% |
| Semi-completed Real Estate (residential & commercial) | 13% | 18% |
| Special-use Real Estate (i.e. Hotels, shopping malls) | 5% | 11% |

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

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### 6.2 Calculation of expected credit losses (continued)

*Scenarios and macroeconomic factors (continued)*

The table below indicates the most significant macroeconomic variables as well as the scenario weights used by the Group as at 31 December 2020 and 31 December 2019 respectively.

**31 December 2020**

| Year | Scenario | Weight | Real GDP (% change) | Unemployment rate (% of labour force) | Industrial production (% change) | Residential Price Index (average change %) | Commercial Price Index (average change %) |
|---|---|---|---|---|---|---|---|
| 2021 | Baseline | 50% | 4,72% | 8,92% | 9,11% | -0,50% | -1,20% |
| | Optimistic | 25% | 9,08% | 7,97% | 13,24% | 0,00% | 0,00% |
| | Pessimistic | 25% | -2,23% | 10,57% | 2,34% | -4,24% | -4,94% |
| 2022 | Baseline | 50% | 4,38% | 7,42% | 4,06% | 0,3% | 0,10% |
| | Optimistic | 25% | 4,05% | 6,98% | 3,83% | 0,00% | 0,00% |
| | Pessimistic | 25% | 4,19% | 9,50% | 3,72% | -8,05% | -8,25% |
| 2023 | Baseline | 50% | 3,68% | 6,17% | 3,43% | 0,20% | 0,80% |
| | Optimistic | 25% | 1,87% | 6,11% | 1,90% | 0,00% | 0,00% |
| | Pessimistic | 25% | 4,10% | 7,62% | 3,84% | -5,26% | -5,66% |
| 2024 | Baseline | 50% | 2,43% | 5,52% | 2,38% | 0,00% | 0,31% |
| | Optimistic | 25% | 1,98% | 5,52% | 1,99% | 0,00% | 0,00% |
| | Pessimistic | 25% | 3,18% | 6,03% | 3,09% | 1,33% | 1,33% |

**31 December 2019**

| Year | Scenario | Weight | Real GDP (% change) | Unemployment rate (% of labour force) | Industrial production (%) | Residential Price Index (average change %) | Commercial Price Index (average change %) |
|---|---|---|---|---|---|---|---|
| 2020 | Baseline | 50% | 2,79% | 6,43% | 3,16% | 1,50% | 1,45% |
| | Optimistic | 25% | 4,17% | 6,03% | 4,49% | 1,79% | 1,74% |
| | Pessimistic | 25% | -1,09% | 8,74% | -0,57% | 0,00% | 0,00% |
| 2021 | Baseline | 50% | 2,26% | 5,96% | 3,17% | 1,55% | 1,40% |
| | Optimistic | 25% | 3,80% | 5,44% | 4,64% | 2,60% | 2,45% |
| | Pessimistic | 25% | -3,27% | 10,83% | -2,06% | -0,72% | -1,02% |
| 2022 | Baseline | 50% | 2,14% | 5,76% | 2,63% | 1,60% | 1,40% |
| | Optimistic | 25% | 2,72% | 5,31% | 3,17% | 2,10% | 1,90% |
| | Pessimistic | 25% | 0,86% | 11,22% | 1,41% | 0,00% | 0,00% |
| 2023 | Baseline | 50% | 1,96% | 5,70% | 2,07% | 1,00% | 1,00% |
| | Optimistic | 25% | 2,06% | 5,24% | 2,17% | 1,00% | 1,00% |
| | Pessimistic | 25% | 3,75% | 10,21% | 3,79% | 0,00% | 0,00% |

The December 2019 scenarios were constructed before the outbreak of the coronavirus pandemic and did not incorporate its impact in the underlying assumptions. The December 2020 scenarios were constructed incorporating the impact of the pandemic on the economy in 2020. The adverse scenario for 2021 in the December 2020 exercise incorporated the steep contraction in 2020 that was not anticipated at the time of the December 2019 forecast exercises and hence growth in the later years is higher in the 2020 scenarios.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.2 Calculation of expected credit losses (continued)

*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, taxes and 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 and are capped accordingly in case of any future projected increase, whereas any future projected decrease is taken into consideration.

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 six years under the baseline scenario (31 December 2019: average of six years).

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. Judgement may also be exercised over staging during the individual assessment. 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 Division and the Finance Division where a strong governance process is in place around the determination of the impairment measurement methodology including inputs, assumptions and overlays. Any management overlays are prepared by the Risk Management Division and endorsed by the Provisions Committee.

The IFRS 9 parameters (PD components), were calibrated during the fourth quarter of 2020 in order to migrate the historic information of the acquired portfolio of Ex-USB and consolidate the portfolio and ECL parameters under the impairment collective tool of the Bank.

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 semi-annually by the Group's Provisioning Committee and are adjusted or enhanced, if deemed necessary.

In addition to individually assessed assets the Group also assesses assets collectively. The collectively assessed portfolio includes all loans which are not individually assessed. The Group categorises the exposures into sufficiently granular portfolio segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type. As part of the recalibration of the ECL collective model during the fourth quarter of 2020, the portfolio of Legal entities was further analysed by industry sector.

*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

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.2 Calculation of expected credit losses (continued)

*Overlays in the context of COVID-19*
Following the COVID-19 pandemic, the Group considered the complexities of governmental support programmes and regulatory guidance on treatment of customer payment breaks by the ECL models. In this context, management has considered the data and measurement limitations arising from the extraordinary impact of COVID-19 and addressed them through management overlays in relation to the significant credit risk deterioration and Probability of defaults.

*Probability of default and behavioural ratings adjustment*
A PD overlay was applied in order to avoid extreme values in the model predictions whilst ensuring that the moratorium will not cause a timeline misalignment between the model projected and observed 2021 defaults. Specifically, the 2020 data was left out of the model's PD calibration to avoid misleading and underestimated the default rates due to the covid-19 payment moratorium. In addition a capping of Point-in-Time PDs was applied to prevent any PD abrupt increases.

The purpose of these overlays is to minimise potential cliff effects with the end of the moratorium, by assessing the customers' long term recovery ability, utilising short term behavioural signals.

*Significant increase in credit risk adjustment (SICR)*
The initial granting of customer relief does not automatically trigger a migration to Stage 2 or Stage 3 for the customers that have applied for the moratorium. During the last quarter of the Moratorium, the Bank carried out an exercise by applying various stress factors to assess and identify those that would have significant increase in credit risk in order to ensure the timely movement of these exposures to a lifetime ECL measurement. Those customers that failed the tests were contacted and all cases were assessed whether a renegotiation was needed involving possible viable restructurings in 2021. A staging overlay was then applied on these customers in order to classify them accordingly to Stage 2. The isolated impact of this overlay resulted in a transfer of loans of €8,4 million from Stage 1 to Stage 2. These overlays had an impact on the ECL of €0,4 million.

### 6.3 Fair value of bonds, shares and other financial instruments

The best evidence of fair value is a quoted price in an actively traded market. The fair value of bonds, shares and other financial instruments that are not traded in an active market is determined by using valuation techniques. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs (Notes 19 and 20). Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

### 6.4 Deferred tax assets

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits as supported by the Group's Business plans, together with future tax planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made resulting in a material adjustment to the carrying amount of deferred tax assets.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.5 Income taxes

Significant estimates are required in determining the provision for income tax. For specific transactions and calculations the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes may become due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the current tax and deferred tax provisions in the affected period.

Judgment is required to assess the expected value of uncertain tax positions that are incorporated into the estimate of income and deferred tax and the assessment of the related probabilities, including in relation to the interpretation of tax laws and the assessment of the related probabilities. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

### 6.6 Fair value of property held for own use and net realisable value of stock of property

Valuations are carried out by independent qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council. In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date and require significant amount of judgement.

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined through valuation techniques, requiring significant judgement, which take into account all available reference points such as, expert valuation reports, current market conditions, the holding period of the asset applying an appropriate illiquidity discount and any other relevant parameters. Selling expenses are always considered and deducted from the realisable value. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainty due to the relatively low level of market activity.

Valuations are carried out every year end for both property held for own use and stock of property.

### 6.7 Classification of property

The Group determines whether a property should be classified as stock of property, investment property or own use property. The determination of the classification is based on the use of each property and is driven by the business model within such property is being held. Stock of property comprises land and buildings held with an intention to be disposed of. This principally relates to repossessed properties and properties acquired through the acquisition of the USB Bank business.

### 6.8 Exercise of significant influence or control

The Group determines whether it exercises significant influence or control on companies in which it has shareholdings. In performing this assessment it considers its representation in the Board of Directors, the participation in policy-making processes including participation in decisions about dividends and other distributions, the execution of material transactions between the investor and the investee, the interchange of managerial personnel or the provision of essential technical information.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 6.9 Leases

***Determination of the lease term***

The Group applies judgement in evaluating whether it is reasonably certain to exercise options to renew. In determining the lease term, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. A re-assessment is performed if a significant event or a significant change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

***Determination of the incremental borrowing rate***

For the measurement of the present value of the future lease payments, the Group estimates the incremental borrowing rate specific to each leased asset or portfolio of lease assets given that the interest rate implicit in the lease cannot be readily determined.

The incremental borrowing rate is based on the yield of covered bonds issued by comparable European banks and which was adjusted upwards for difference in country risk, the lack of liquidity in the Cypriot market (and hence low marketability of any covered bonds that the Group may issue), the relatively small size of the Bank, as well as the potentially lower credit rating that agencies would assign to the Group's issued debt, compared to the credit rating associated with the selected covered bonds. The resulting yield curve was considered to reflect the Group's incremental borrowing rate.

## 7. NET INTEREST INCOME

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Interest income** | | |
| Interest on loans advances to customers | 40.876.987 | 40.383.516 |
| Interest on debt securities at amortised cost | 8.318.408 | 7.758.027 |
| Interest on placements with banks | 350.179 | 2.005.797 |
| Interest income from negative interest rates on customer deposits | 1.578.559 | - |
| Interest income on other receivables | 62.978 | - |
| Negative interest on funding from central banks | 931.250 | - |
| **Total interest income** | **52.118.361** | **50.147.340** |
| | | |
| **Other interest income** | | |
| Interest on debt securities at fair value through profit or loss | 284.892 | 423.417 |
| Interest on derivative financial instruments | 278.437 | 1.717.911 |
| **Total other interest income** | **563.329** | **2.141.328** |
| | | |
| **Interest expense** | | |
| Interest on deposits from customers | (1.748.591) | (4.891.666) |
| Interest due to other banks | (185.323) | (196.872) |
| Interest on lease liabilities | (85.134) | (98.259) |
| Negative interest on placements with Central Bank and other banks | (318.954) | (751.747) |
| Interest on subordinated bond | (675.011) | - |
| **Total interest expense** | **(3.013.013)** | **(5.938.544)** |
| | | |
| **Net interest income** | **49.668.677** | **46.350.124** |

## 8. NET FEE AND COMMISSION INCOME

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Fee and commission income** | | |
| Credit-related fees and commissions | 4.566.903 | 5.590.189 |
| Money transfer fees and commissions | 6.292.007 | 5.663.657 |
| Other banking commissions | 240.050 | 339.361 |
| Other fees | 5.304.122 | 4.858.454 |
| Private banking asset management fees | 593.432 | 291.894 |
| **Total fee and commission income** | **16.996.514** | **16.743.555** |
| | | |
| **Fee and commission expense** | | |
| Fees and commissions from banking operations | (2.348.758) | (2.569.182) |
| Private banking asset management fees | (259.274) | (250.798) |
| **Total fee and commission expense** | **(2.608.032)** | **(2.819.980)** |
| | | |
| **Net fee and commission income** | **14.388.482** | **13.923.575** |

## 9. OTHER INCOME

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Dividend from equity investments (Note 20) | 542.948 | 767.057 |
| Distribution from fund participation (Note 19) | 812.605 | 632.228 |
| Profit from disposal of stock of properties (Note 25) | 65.068 | 258.777 |
| Other income | 392.952 | 180.318 |
| **Total** | **1.813.573** | **1.838.380** |

## 10. NET GAINS ON FINANCIAL INSTRUMENT TRANSACTIONS

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Gain from foreign exchange | 2.365.216 | 1.926.808 |
| Gain from disposal of financial assets at fair value through profit or loss (Note 19) | 2.133.500 | 4.478.516 |
| Fair value gain on revaluation of debt securities classified at FVTPL (Note 19) | - | 346.015 |
| Fair value loss on disposal of debt securities classified at FVTPL (Note 19) | (746.912) | - |
| Revaluation of financial instruments at fair value through profit or loss (Note 19) | (316.273) | - |
| Fair value gain on revaluation of shares classified at FVTPL (Note 19) | 333.692 | 651.989 |
| Fair value gain on revaluation of derivative on equity shares (Note 18) | - | 794.494 |
| Fair value loss on revaluation of equity shares (Note 19) | - | (794.494) |
| Contribution received on shares classified at FVTPL | - | 157.814 |
| *Revaluation of financial instruments designated as fair value hedges:* | | |
| Hedging instruments (Note 38) | (517.931) | - |
| Hedged items (Note 38) | 515.143 | - |
| Gain on disposal of subsidiaries and associates (Note 23) | 11.893.761 | - |
| **Total** | **15.660.196** | **7.561.142** |

## 11. STAFF EXPENSES

**Staff expenses**

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Salaries | 29.434.456 | 28.120.476 |
| Social insurance and other contributions | 1.856.898 | 1.850.423 |
| Retirement benefit cost for defined contributions plans | 2.239.506 | 2.192.955 |
| Voluntary redundancy costs | 16.957.756 | 2.193.764 |
| Other staff expenses | 504.146 | 353.556 |
| **Total** | **50.992.762** | **34.711.174** |

In December 2020, the Group completed a targeted voluntary staff exit plan through which 114 full-time employees left the Bank for a total cost of €16.957.756.

The number of employees as at 31 December 2020 was decreased to 473 (2019: 581).

## 12. DEPRECIATION AND AMORTISATION

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Depreciation of property and equipment (Note 26) | 1.525.157 | 1.336.534 |
| Depreciation of right of use assets (Note 26) | 1.225.751 | 1.265.359 |
| Amortisation of intangible assets (Note 27) | 1.843.296 | 2.183.845 |
| **Total** | **4.594.204** | **4.785.738** |

## 13. OTHER OPERATING EXPENSES

| | 2020<br>€ | 2019<br>€ |
|---|---:|---:|
| Legal expenses and other consultancy fees | 6.364.261 | 4.834.542 |
| Buildings and other assets' maintenance cost | 3.431.520 | 3.844.779 |
| Servicer's administration fees | 3.080.380 | - |
| Other operating expenses | 1.895.304 | 1.302.175 |
| Subscriptions | 913.625 | 602.193 |
| Sales and marketing expenses | 712.361 | 880.594 |
| Telecommunication expenses | 566.757 | 586.150 |
| Insurance expenses | 551.828 | 729.437 |
| Printing and stationery | 485.619 | 428.873 |
| Utilities | 477.556 | 530.229 |
| Travelling expenses | 390.415 | 736.767 |
| Postal expenses and transportation of cash | 360.876 | 256.412 |
| Operating lease rentals | 223.714 | 341.274 |
| | 19.454.216 | 15.073.425 |
| | | |
| Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies | 3.004.378 | 3.010.946 |
| Deposit Guarantee Fund (DGF) | 585.754 | - |
| **Total** | **23.044.348** | **18.084.371** |

Other operating expenses include credit card expenses, file storage expense, donations, municipality and stamp duties.

***Servicer's administration fees***

As at 31 December 2020, non performing exposures with a contractual gross value of approximately €572m and REO portfolio with a net book value of approximately €144,8m are managed by QQuant Master Servicer Cyprus Limited ("QQuant") in consideration for an administration fee payable by the Group. The administration fee paid to QQuant comprises both a fixed and a variable element. The level of fees payable to QQuant varies according to the size of the portfolio under management and the progress of collections, successful resolutions of the loan portfolio and the sale of real estate assets owned assets.

***Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF)***

The special tax levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0,0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge. The Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund amounted to €3.004.378 (2019: €3.010.946).

***Deposit Guarantee Fund (DGF)***

As from 1 January 2020 and until 3 July 2024 the Bank is subject to contribution to the Deposit Guarantee Fund (DGF) on a semi-annual basis. The contributions are calculated based on the Risk Based Methodology (RBM) as approved by the management committee of the Deposit Guarantee and Resolution of Credit and Other Institutions Schemes (DGS) and is publicly available on the CBC's website. In line with the RBM, the contributions are broadly calculated on the covered deposits of all authorised institutions and the target level is to reach at 0,8% of covered deposits by 3 July 2024. The contribution to the Deposit Guarantee Fund amounted to €585.754 (2019: €NIL).

## 13. OPERATING EXPENSES (continued)

Legal expenses and other consultancy fees include fees (including taxes) to the independent auditors of the Group, for audit and other professional services as follows:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Audit of the financial statements of the Group and its subsidiaries | 276.800 | 324.537 |
| Other assurance services | - | 127.709 |
| Tax compliance and advisory services | 139.743 | 107.982 |
| Other non-audit services | 8.000 | 43.700 |
| **Total** | **424.543** | **603.928** |

Other assurance services include fees related to the review of the Group's interim condensed financial statements.

## 14. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| ***Credit losses to cover credit risk on loans and advances*** | | |
| (Provision for) / reversal of expected credit loss to cover credit risk on loans and advances to customers (Note 22) | (15.159.196) | 2.484.617 |
| (Provision for) / reversal of expected credit loss on loans and advances to customers due to write offs | (508.596) | 212.538 |
| Recoveries of loans and advances to customers previously written off | 2.163 | 1.449 |
| Reversal of/ (provision for) of expected credit loss to cover credit risk on contractual commitments and guarantees (Note 40) | (480.646) | (349.930) |
| | | |
| ***Credit losses on other financial instruments*** | | |
| Reversal of/ (provision for) expected credit losses to cover credit risk on other financial instruments | 355.118 | (1.253.923) |
| Reversal of/ (provision for) expected credit losses to cover credit risk on placements with other banks | 238.130 | (238.130) |
| Provision for expected credit losses to cover credit risk on other receivables | (394.354) | - |
| | **(15.947.381)** | **856.621** |

## 15. INCOME TAX

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Current tax | (17.134) | (17.272) |
| Deferred tax (Note 29) | (1.568.522) | (2.464.435) |
| | **(1.585.656)** | **(2.481.707)** |

The Group is subject to income tax in Cyprus on taxable profits at the rate of 12,5% (2019: 12,5%).

Brought forward tax losses may be utilised over five years.

The reconciliation between the income tax expense and the loss before tax as estimated using the current income tax rates is set out below:

### 15. INCOME TAX (continued)

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| (Loss)/ profit before tax | (16.740.601) | 19.227.946 |
| Tax calculated at the applicable tax rates | (2.092.575) | 2.403.493 |
| Income tax effect of: | | |
| Expenses and other losses not deductible for tax purposes | 5.328.138 | 3.816.157 |
| Income and deductions not subject to tax | (1.862.762) | (4.321.961) |
| (Tax losses utilised)/ tax losses to be carried forward | (1.355.667) | 1.880.417 |
| Deferred tax charge/ credit | 1.568.522 | 2.464.435 |
| | **1.585.656** | **2.481.707** |

An analysis of accumulated losses is as follows:

| | Tax losses<br>€ | Income tax losses for which a deferred tax asset was recognised (Note 29)<br>€ | Income tax losses for which no deferred tax asset was recognised<br>€ |
|---|---|---|---|
| Expiring in 2021 | 8.265.770 | 8.265.770 | - |
| | **8.265.770** | **8.265.770** | **-** |

Recognition of deferred tax assets on unutilised income tax losses is based on Management's business forecasts, taking into account available information and making various assumptions on future growth rate of customer loans, deposits, loan impairment, reduction of NPEs and considering the recoverability of the deferred tax assets within their expiry period.

### 16. CASH AND BALANCES WITH CENTRAL BANKS

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Cash | 15.607.802 | 14.223.777 |
| Mandatory deposits with Central Banks | 21.191.198 | 21.242.364 |
| Other balances with the Central Bank of Cyprus | 552.722.081 | 203.102.695 |
| Cheques to be cleared | 2.258.671 | 3.256.453 |
| **Total** | **591.779.752** | **241.825.289** |

The following table presents the Mandatory deposits and other balances with Central Bank of Cyprus categorised according to their credit rating as per Moody's, the international credit rating agency as at 31 December 2020 and 31 December 2019.

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Ba2 | 573.913.279 | 224.345.059 |
| **Total** | **573.913.279** | **224.345.059** |

The placements with central banks are classified as Stage 1.

There was no ECL allowance on balances with central banks for the years 2020 and 2019.

## 16. CASH AND BALANCES WITH CENTRAL BANKS (continued)

Cash and cash equivalents comprise:

| | 2020 € | 2019 € |
|---|---:|---:|
| Cash | 15.607.802 | 14.223.777 |
| Other non-obligatory balances | 552.722.081 | 203.102.695 |
| Cheques to be cleared | 2.258.671 | 3.256.453 |
| Current accounts (Note 17) | 16.835.950 | 30.151.978 |
| Placements with other banks with an original maturity of less than three months (Note 17) | 38.842.934 | 60.350.248 |
| | **626.267.438** | **311.085.151** |

## 17. PLACEMENTS WITH OTHER BANKS

| | 2020 € | 2019 € |
|---|---:|---:|
| Current accounts | 16.835.950 | 30.151.978 |
| Fixed term placement | 38.842.934 | 60.588.378 |
| 12 month expected credit losses | - | (238.130) |
| **Total** | **55.678.884** | **90.502.226** |

The following table presents the placements with other banks categorised according to their credit rating as per Moody's, the international credit rating agency, apart from (i),(ii) and (iii) which were categorised as per Standard and Poor's as at 31 December 2020 and 31 December 2019.

| | 2020 € | 2019 € |
|---|---:|---:|
| Credit rating Aa2 (i) | 1.129.456 | 3.605.790 |
| Credit rating Aa3 | 7.521.491 | 20.923.116 |
| Credit rating A1 | 1.737.664 | 3.712.624 |
| Credit rating A3 (ii) | 44.475.447 | 1.442.083 |
| Credit rating Baa3 (iii) | - | 1.507.854 |
| Credit rating Caa1 | - | 58.915.954 |
| Credit rating Caa2 | 110.539 | 377.744 |
| Unrated | 704.287 | 17.061 |
| | **55.678.884** | **90.502.226** |

The placements with other Banks earn interest based on the interbank rate of the relevant term and currency and are classified at Stage 1.

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative financial instruments:

- Foreign currency forwards: represent agreements for the purchase or sale of foreign currencies settled at a future date.
- Foreign currency swaps: represent agreements for the exchange of cash flows of different currencies.
- Interest rate swaps: represent agreements where one stream of future interest payments is exchanged for another based on a predetermined notional amount and time periods.

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional and fair values of derivative financial instruments were as follows:

| | Notional contract amount | Fair Value | |
|---|---|---|---|
| | | Assets | Liabilities |
| | € | € | € |
| **31 December 2020** | | | |
| | | | |
| **Derivatives held for trading:** | | | |
| **Foreign exchange derivatives** | | | |
| Forward contracts | 4.565.618 | 5.825 | 3.653 |
| Currency swaps | 93.685.020 | 104.799 | 148.742 |
| | | | |
| **Derivatives qualifying for hedge accounting** | | | |
| Fair value hedges - interest rate swaps | 5.000.000 | - | 517.931 |
| **Total derivative financial instruments** | | **110.624** | **670.326** |
| | | | |
| **31 December 2019** | | | |
| | | | |
| **Derivatives held for trading:** | | | |
| **Foreign exchange derivatives** | | | |
| Forward contracts | 1.701.748 | 100.518 | 152.703 |
| Currency swaps | 56.758.465 | 7.806 | 3.303 |
| Derivative on equity shares (1) | | 116.789 | - |
| **Total derivative financial instruments** | | **225.113** | **156.006** |

(1) The agreement between HMS and PBSA (Note 20) contained a derivative which was recognised in the consolidated statement of financial position as the difference between the fair value at each reporting date and the price set by the SPA. During 2020, the shares that were subject to the agreement, were disposed and hence, the derivative on equity shares lapsed.

During the year ended 31 December 2019 the Bank recognised a fair value gain on the derivative on equity shares of €794.494.

### 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Trading debt securities (1) | 3.609.085 | 6.218.035 |
| Fund participation (2) | 7.833.023 | 8.915.040 |
| Debt securities (3) | - | 8.035.074 |
| Equity investments (4) | - | 6.763.713 |
| Other investment | 578.232 | 1.067.164 |
| | **12.020.340** | **30.999.026** |
| **Movement:** | | |
| 1 January | 30.999.026 | 22.909.165 |
| Financial assets acquired via acquisition of USB Bank | - | 1.339.457 |
| New assets acquired in the year | 539.497.539 | 297.081.890 |
| Assets derecognised or redeemed in the year | (559.177.250) | (295.445.132) |
| Changes in fair value/ gain or loss on disposal | 1.404.007 | 4.923.087 |
| Foreign exchange gain | (702.982) | 190.559 |
| **Closing balance** | **12.020.340** | **30.999.026** |

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(1) Trading debt securities comprise of Cyprus government and corporate bonds acquired principally for the purpose of selling or repurchasing them in the near term. The net gain on disposal of the trading debt securities for the year amounts to €2.133.500 (2019: €4.478.516).

(2) Fund participation relates to an investment of US$10.000.000 in PMOF Special Situations Private Credit Fund. The fund participation is classified at FVTPL as it failed to meet the SPPI criteria. Fair value loss on revaluation amounted to €316.273 for 2020 (2019: €NIL). Distribution income amounting to €812.605 has been received and recognised for 2020 in other income (2019: €632.228).

(3) Debt securities comprised of contingent convertible bonds that failed to meet the SPPI criteria and, as a result, have been classified at FVTPL. From the debt securities that were disposed during 2020 and a loss of €671.352 was recognised in the consolidated income statement. Fair value gain on revaluation for 2019 amounted to €346.015.

(4) Equity investments comprised of the investment in the shares of Atlantic Insurance Company Limited (ATL) (9,995% of the share capital of ATL). The shares were disposed 2020 with no resulting profit or loss effect. During the year ended 31 December 2019 the Bank recognised a fair value loss of €794.494 for the investment in ATL.

Prior to the disposal the Group had owned 19,99% of the share capital of Atlantic Insurance Company Limited (ATL). The remaining shareholding of 9,955% of the share capital of ATL is classified as fair value through other comprehensive income.

The investment in ATL classified as FVTPL was under the 'Agreement for the Sale and Purchase of Shares in Piraeus Bank (Cyprus) Ltd' "the SPA", between Piraeus Bank S.A., Holding M. Sehnaoui SAL (HMS) and AstroBank Public Company Limited which was completed on 28 December 2016. Piraeus Bank S.A. (PBSA) was committed to either find, within 180 days after Completion, a buyer for at least 50% of the Group's shares in ATL (with further terms ensuring that the Bank received no less and no more than the book value per share as at 31 December 2015) or to make a payment to HMS of €4,499,998.44, whereupon HMS shall subscribe for and the Bank shall issue to HMS 1,209,677 new ordinary shares, which HMS shall allocate to itself and the Subscribers pro rata to their respective shareholdings in the Bank at the time of Completion. The agreement was fulfilled with the sale of the shares during 2020.

**Risk of fluctuations in bond prices**
As at 31 December 2020 the trading debt securities are exposed to price fluctuations of bond instruments. A decrease/ increase in the market price of the bonds by 5% as at 31 December 2020 would result in a decrease/ increase in net equity by €180.454 (2019: €310.902).

**Risk of fluctuations in equity prices and conversion rates**
*VISA Inc. Series C Convertible participating preferred stock*
As at 31 December 2020 the investment is exposed to price fluctuations of the VISA Inc. Common Stock A shares and to changes in the conversion rate. A decrease/ increase in the market price of the shares and the conversion rate by 5% as at 31 December 2020 would result in a decrease/increase in net equity by €56.351 in each case.

There were no reclassifications of investments during the years 2020 and 2019.

The maximum exposure to credit risk for debt securities is disclosed in Note 40.

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2020 € | 2019 € |
|---|---|---|
| **Equity shares** | | |
| Listed | 5.839.430 | 5.909.195 |
| Unlisted | 332.453 | 317.892 |
| | **6.171.883** | **6.227.087** |

The Company irrevocably made the election to classify its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value at 31 December 2020 and 31 December 2019 is equal to their fair value.

Equity investments at FVOCI comprise mainly the investment in the share capital of Atlantic Insurance Company Limited (ATL). The Group's Management believes that the price of the share which is listed in the Cyprus Stock Exchange is not representative as the shares of the company are not traded in an active market and therefore at 31 December 2020 valued this investment using alternative valuation methods. The Bank has obtained an external independent professional valuation report based on a discounted cash flow methodology.

Dividend income for 2020 amounting to €542.948 has been recognised in other income (2019: €767.057).

Following the disposal of unlisted equity shares, an amount of €69.764 (2019: €NIL) was transferred from OCI to retained earnings.

## 21. DEBT SECURITIES

| | 2020 € | 2019 € |
|---|---|---|
| **Securities classified at amortised cost** | | |
| Listed | 860.185.930 | 700.178.089 |
| 12 month expected credit losses | (1.290.209) | (1.645.327) |
| | **858.895.721** | **698.532.762** |
| | | |
| Listed on the Cyprus Stock Exchange | 246.390.032 | 104.427.241 |
| Listed on other stock exchanges | 612.505.689 | 594.105.521 |
| | **858.895.721** | **698.532.762** |

During 2020, the Group has proceeded to invest in debt securities, as part of its investing strategy which mainly related to the acquisition of Eurozone Sovereigns and supranationals and Cyprus Government bonds. During 2019, the Group recognised in the consolidated income statement a gain of €17.035.443 from the disposal of debt securities at amortised cost. The Bank proceeded to the disposal as an exceptional measure amongst other decisions for capital and liquidity optimisation.

On 31 December 2020, the debt securities at amortised cost mainly comprised of Cyprus Government bonds and Cyprus Treasury Bills of €475.179.323 (2019: €299.477.833) with short and long term maturity, Greek Government Bonds of €79.120.953 (2019: €67.377.561), Greek Treasury Bills of €84.951.889 (2019: €72.963.929) European sovereign bonds and corporate bonds with short and long term maturity of €167.891.872 (2019: €208.733.771) and non-Eurozone sovereign bonds of €51.751.684 (2019: €49.979.668) with short and long term maturity.

Debt securities classified at amortised cost are pledged as collateral for funding from Central Banks. Details for encumbered assets are disclosed in Note 40.

There were no reclassifications of investments during the years 2020 and 2019.

The maximum exposure to credit risk for debt securities is disclosed in Note 40.

**21. DEBT SECURITIES (continued)**

An analysis of changes in the gross carrying amount and the corresponding ECLs for the year ended 31 December 2020 is, as follows:

| | Stage 1 € | Stage 2 € | Stage 3 € | Total € |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2020 | 700.178.089 | - | - | 700.178.089 |
| New assets acquired in the year | 991.871.194 | - | - | 991.871.194 |
| Assets derecognised or redeemed in the year | (818.436.808) | - | - | (818.436.808) |
| Accrued interest | 8.258.030 | - | - | 8.258.030 |
| Fair value due to hedging relationship (Note 38) | 515.143 | - | - | 515.143 |
| Foreign exchange adjustments | (9.033.050) | - | - | (9.033.050) |
| Interest received | (13.166.668) | - | - | (13.166.668) |
| **Debt securities at amortised cost as at 31 December 2020** | **860.185.930** | - | - | **860.185.930** |

| | Stage 1 € | Stage 2 € | Stage 3 € | Total € |
|---|---|---|---|---|
| ECL allowance as at 1 January 2020 | 1.645.327 | - | - | 1.645.327 |
| Decrease in the ECL during the year | (339.204) | - | - | (339.204) |
| Assets derecognised or matured | (15.914) | - | - | (15.914) |
| **ECL allowance as at 31 December 2020** | **1.290.209** | - | - | **1.290.209** |

An analysis of changes in the gross carrying amount and the corresponding ECLs for the year ended 31 December 2019 is as follows:

| | Stage 1 € | Stage 2 € | Stage 3 € | Total € |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2019 | 371.749.000 | - | - | 371.749.000 |
| New assets acquired in the year (1) | 1.009.098.746 | - | - | 1.009.098.746 |
| Assets derecognised or redeemed in the year | (679.870.295) | - | - | (679.870.295) |
| Accrued interest | 7.675.642 | - | - | 7.675.642 |
| Foreign exchange adjustments | 1.373.143 | - | - | 1.373.143 |
| Interest received | (9.848.147) | - | - | (9.848.147) |
| **Debt securities at amortised cost as at 31 December 2019** | **700.178.089** | **-** | **-** | **700.178.089** |

(1) New assets purchased include debt securities acquired via the acquisition of USB Bank business amounting to €110.946.748.

| | Stage 1 € | Stage 2 € | Stage 3 € | Total € |
|---|---|---|---|---|
| ECL allowance as at 1 January 2019 | 391.404 | - | - | 391.404 |
| Increase in the ECL during the year | 1.428.986 | - | - | 1.428.986 |
| Assets derecognised or matured | (175.063) | - | - | (175.063) |
| **ECL allowance as at 31 December 2019** | **1.645.327** | **-** | **-** | **1.645.327** |

## 21. DEBT SECURITIES (continued)

The following table presents investments in bond securities categorised according to the issuer's or country's rating for government guaranteed securities, as per the international credit rating agency, Moody's, as at 31 December 2020 and 31 December 2019:

| | 2020 € | 2019 € |
|---|---:|---:|
| **Investments in bond securities classified at amortised cost:** | | |
| Credit rating Aaa | 10.775.962 | 19.605.676 |
| Credit rating Aa1 | 1.961.841 | - |
| Credit rating Aa2 | 10.729.157 | 9.951.752 |
| Credit rating Aa3 | 34.006.586 | 27.018.626 |
| Credit rating A1 | 10.294.048 | 5.381.903 |
| Credit rating A2 | 2.853.068 | 3.966.567 |
| Credit rating A3 | 39.510.443 | 35.295.597 |
| Credit rating Baa1 | - | 40.151.709 |
| Credit rating Baa2 | 15.199.837 | 17.321.606 |
| Credit rating Baa3 | 43.397.850 | 50.518.996 |
| Credit rating Ba1 | 15.146.886 | 15.305.224 |
| Credit rating Ba2 | 479.809.733 | 299.477.833 |
| Credit rating Ba3 | 177.252.414 | 24.290.859 |
| Credit rating B1 | - | 140.341.489 |
| Credit rating Caa2 | 17.957.896 | 5.101.261 |
| Unrated | - | 4.803.664 |
| | **858.895.721** | **698.532.762** |

The following table presents investments in bond securities by country of issuer as at 31 December 2020 and 31 December 2019:

| | 2020 € | 2019 € |
|---|---:|---:|
| **Investments in bond securities classified at amortised cost:** | | |
| Cyprus | 482.987.690 | 304.579.094 |
| Greece | 189.369.257 | 195.798.422 |
| Other Eurozone countries | 123.692.991 | 143.408.159 |
| Non-Eurozone countries | 62.845.783 | 54.747.087 |
| | **858.895.721** | **698.532.762** |

## 22. LOANS AND ADVANCES TO CUSTOMERS

| | 2020 € | 2019 € |
|---|---|---|
| Advances to individuals | 341.902.414 | 309.203.656 |
| Advances to legal entities: | | |
| Large corporate entities and organisations | 228.793.122 | 170.752.601 |
| Small and medium size enterprises (SMEs) | 712.257.165 | 678.116.319 |
| **Advances to customers – gross** | **1.282.952.701** | **1.158.072.576** |
| **Allowance for ECL** | **(182.559.216)** | **(160.181.919)** |
| | | |
| **Advances to customers – net** | **1.100.393.485** | **997.890.657** |

Gross loans comprise of gross loans and advances to customers measured at amortised cost (reported after the residual fair value adjustment on initial recognition as detailed in Note 40). The amount of new originations in the year net of derecognitions and other movements is €133,6m (2019: €150m). The contractual write-offs of loans and advances during the year are €19,8m (2019: €54,6m). The equivalent write-off amount excluding the residual fair value adjustment on initial recognition is €8,8m (2019:€33,4m).

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is presented below.

| | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| 1 January 2020 | 643.222.087 | 112.486.922 | 247.332.774 | 155.030.793 | 1.158.072.576 |
| New assets originated or purchased | 201.041.579 | - | - | 5.607.877 | 206.649.456 |
| Transfer to Stage 1 | 41.127.087 | (40.874.630) | (252.457) | - | - |
| Transfer to Stage 2 | (67.110.066) | 92.319.547 | (25.209.481) | - | - |
| Transfer to Stage 3 | (7.926.252) | (7.729.878) | 15.656.130 | - | - |
| Net movement during the year | (37.652.114) | 1.868.343 | 12.680.480 | 3.260.340 | (19.842.951) |
| Gross loans derecognised | (28.746.987) | (13.979.892) | (10.049.976) | (396.706) | (53.173.561) |
| Write-offs | (12.525) | (26.487) | (6.503.641) | (2.210.166) | (8.752.819) |
| **At 31 December 2020** | **743.942.809** | **144.063.925** | **233.653.829** | **161.292.137** | **1.282.952.701** |

For overlays performed in the context of COVID-19 resulting in transfers of loans and advances to customers in Stage 2 refer to Note 6.2.

| | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| 1 January 2019 | 379.553.853 | 59.376.529 | 288.268.791 | 32.541.938 | 759.741.111 |
| Gross loans acquired via acquisition of USB Bank business | 184.120.151 | - | - | 118.393.536 | 302.513.687 |
| New assets originated or purchased | 227.686.916 | - | - | 4.772.457 | 232.459.373 |
| Transfer to Stage 1 | 8.521.355 | (8.520.632) | (723) | - | - |
| Transfer to Stage 2 | (63.994.570) | 75.344.790 | (11.350.220) | - | - |
| Transfer to Stage 3 | (11.083.007) | (4.962.904) | 16.045.911 | - | - |
| Net movement during the year | (48.329.379) | (7.961.483) | 5.531.632 | 7.557.257 | (43.201.973) |
| Gross loans derecognised | (33.169.756) | (767.174) | (25.205.798) | (926.940) | (60.069.668) |
| Write-offs | (83.476) | (22.204) | (25.956.819) | (7.307.455) | (33.369.954) |
| **At 31 December 2019** | **643.222.087** | **112.486.922** | **247.332.774** | **155.030.793** | **1.158.072.576** |

## 22. LOANS AND ADVANCES TO CUSTOMERS (continued)

The allowance for ECL is increased from €160m at 31 December 2019 to €183m at 31 December 2020.The variance is primarily driven by the €18,1m increase from changes in models and inputs, mainly due to change in macro-economic environment because of Covid 19, €11,2m decrease from write offs and derecognition, and ECL on new originations and €2,6m increase due to discount unwinding relating to Stage 3 and POCI facilities which was recognised as a reduction to interest income.

**31 December 2020**

| | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| **ECL allowance** | | | | | |
| 1 January 2020 | 4.503.506 | 2.235.618 | 129.221.697 | 24.221.098 | 160.181.919 |
| Interest not recognised in the income statement | - | - | 10.445.586 | 2.328.903 | 12.774.489 |
| Write-offs | - | - | (6.406.621) | (2.194.787) | (8.601.408) |
| Provision on new exposures granted | 2.266.691 | - | - | 401.024 | 2.667.715 |
| Derecognition | (241.350) | (251.949) | (1.767.664) | (52.062) | (2.313.025) |
| Transfer to Stage 1 | 746.250 | (696.548) | (49.702) | - | - |
| Transfer to Stage 2 | (263.605) | 1.214.644 | (951.039) | - | - |
| Transfer to Stage 3 | (564.574) | (428.372) | 992.946 | - | - |
| Change due to models and inputs | 865.643 | 2.722.236 | 7.530.122 | 6.924.798 | 18.042.799 |
| Foreign exchange difference and other movement | (190.686) | - | (5.246) | 2.659 | (193.273) |
| **31 December 2020** | **7.121.875** | **4.795.629** | **139.010.079** | **31.631.633** | **182.559.216** |

Change due to credit risk contains expected credit loss recognised due to from the updated macroeconomic scenarios and overlays performed in the context of COVID-19 and PD calibration.

**31 December 2019**

| | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| **ECL allowance** | | | | | |
| 1 January 2019 | 4.338.669 | 2.181.392 | 146.778.368 | 27.809.938 | 181.108.367 |
| Interest not recognised in the income statement | - | - | 11.550.327 | 2.357.644 | 13.907.971 |
| Write-offs | - | - | (26.491.929) | (6.215.545) | (32.707.474) |
| Provision on new exposures granted | 3.128.275 | - | - | 727.503 | 3.855.778 |
| Derecognition | (148.228) | (28.412) | (2.776.617) | (20.951) | (2.974.208) |
| Transfer to Stage 1 | 239.776 | (239.265) | (511) | - | - |
| Transfer to Stage 2 | (952.630) | 3.444.511 | (2.491.881) | - | - |
| Transfer to Stage 3 | (555.023) | (474.026) | 1.029.049 | - | - |
| Change due to change in credit risk | (1.306.210) | (2.621.182) | 2.050.030 | (437.294) | (2.314.656) |
| Foreign exchange difference and other movement | (241.123) | (27.400) | (425.139) | (197) | (693.859) |
| **31 December 2019** | **4.503.506** | **2.235.618** | **129.221.697** | **24.221.098** | **160.181.919** |

## 22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2020 in accordance with the EBA standards.

| | Gross Loans and Advances to Customers | | | | Accumulated Impairment, accumulated changes in fair value due to credit risk and provisions | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Of which with Forbearance measures | | | | Of which with Forbearance measures | |
| | Gross carrying amount | Of which Non-Performing | Gross carrying amount of Loans with Forbearance measures | Of which Non-Performing | Cumulative Impairment Losses | Of which Non-Performing | Cumulative Impairment Losses of Loans with Forbearance measures | Of which Non-Performing |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **General Governmnets** | **4.205** | **-** | **-** | **-** | **58** | **-** | **-** | **-** |
| **Other Financial Corporations** | **63.357** | **2.180** | **13.061** | **-** | **1.415** | **614** | **342** | **-** |
| **Non-financial Corporations** | **869.477** | **229.440** | **109.838** | **81.756** | **102.252** | **92.972** | **10.342** | **8.683** |
| of which: Small and Medium-sized enterprises | 671.653 | 229.440 | 103.241 | 81.756 | 98.761 | 92.972 | 9.871 | 8.683 |
| of which: Loans collateralized by commercial Immovable property | 353.972 | 75.643 | 53.681 | 37.856 | 22.513 | 19.229 | 2.339 | 1.409 |
| **Non-financial Corporations by sector** | **869.477** | **229.440** | **109.838** | **81.756** | **102.252** | **92.972** | **10.342** | **8.683** |
| Construction | 184.403 | 118.798 | 51.676 | 43.227 | 51.720 | 50.037 | 8.308 | 7.478 |
| Wholesale and retail trade | 114.518 | 29.345 | 15.726 | 9.071 | 16.999 | 14.687 | 955 | 600 |
| Accommodation and food service activities | 112.677 | 18.981 | 7.979 | 7.979 | 4.669 | 4.451 | 287 | 287 |
| Real estate activities | 138.529 | 25.760 | 19.665 | 11.489 | 12.197 | 9.748 | 508 | 46 |
| Water supply, sewerage and waste management | 55.396 | 38 | - | - | 33 | 32 | - | - |
| Other Sectors | 263.954 | 36.518 | 14.792 | 9.990 | 16.634 | 14.017 | 284 | 272 |
| **Households** | **345.914** | **156.795** | **34.143** | **30.861** | **78.834** | **76.751** | **5.624** | **5.308** |
| of which: Loans collateralized by residential Immovable property | 222.408 | 99.090 | 29.031 | 26.392 | 36.930 | 36.388 | 4.421 | 4.135 |
| of which: Credit for consumption | 92.903 | 44.953 | 8.963 | 8.787 | 19.945 | 18.804 | 1.219 | 1.257 |
| **Total** | **1.282.953** | **388.415** | **157.042** | **112.617** | **182.559** | **170.337** | **16.308** | **13.991** |

## 22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2019 in accordance with the EBA standards.

| | Gross Loans and Advances to Customers | | | | Accumulated Impairment, accumulated changes in fair value due to credit risk and provisions | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Of which with Forbearance measures | | | | Of which with Forbearance measures | |
| | Gross carrying amount | Of which Non-Performing | Gross carrying amount of Loans with Forbearance measures | Of which Non-Performing | Cumulative Impairment Losses | Of which Non-Performing | Cumulative Impairment Losses of Loans with Forbearance measures | Of which Non-Performing |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **General Governmnets** | **3.305** | **-** | **-** | **-** | **49** | **-** | **-** | **-** |
| **Other Financial Corporations** | **67.814** | **14.693** | **15.905** | **12.610** | **1.526** | **897** | **432** | **361** |
| **Non-financial Corporations** | **777.573** | **231.956** | **130.679** | **82.383** | **86.126** | **81.584** | **6.343** | **5.807** |
| of which: Small and Medium-sized enterprises | 617.460 | 230.864 | 120.899 | 82.383 | 84.336 | 81.538 | 6.725 | 5.808 |
| of which: Loans collateralized by commercial Immovable property | 329.834 | 88.799 | 54.934 | 49.383 | 18.851 | 17.322 | 208 | 58 |
| **Non-financial Corporations by sector** | **777.573** | **231.956** | **130.679** | **82.383** | **86.126** | **81.584** | **6.343** | **5.807** |
| Construction | 172.946 | 116.375 | 71.309 | 43.199 | 40.331 | 40.007 | 4.887 | 4.606 |
| Wholesale and retail trade | 115.997 | 32.388 | 14.788 | 12.254 | 13.673 | 12.500 | 204 | 57 |
| Accommodation and food service activities | 95.549 | 21.412 | 13.039 | 6.813 | 8.015 | 7.837 | - | - |
| Real estate activities | 127.175 | 25.896 | 15.921 | 11.077 | 8.716 | 8.225 | 20 | - |
| Water supply, sewerage and waste management | 54.229 | 33 | - | - | 336 | 27 | - | - |
| Other Sectors | 211.677 | 35.852 | 15.622 | 9.040 | 15.055 | 12.988 | 1.232 | 1.144 |
| **Households** | **309.381** | **153.733** | **33.425** | **28.408** | **72.481** | **71.161** | **3.031** | **2.915** |
| of which: Loans collateralized by residential Immovable property | 197.603 | 95.640 | 27.520 | 23.900 | 30.335 | 30.041 | 2.141 | 2.073 |
| of which: Credit for consumption | 276.347 | 134.207 | 30.083 | 26.173 | 58.889 | 57.801 | 2.756 | 2.715 |
| **Total** | **1.158.073** | **400.382** | **180.009** | **123.401** | **160.182** | **153.642** | **9.806** | **9.083** |

(1) Non-including loans and advances to central banks and credit institutions

## 23. INVESTMENT IN ASSOCIATE COMPANY

Following the sale to Qualco Holdco Limited of 74,9% of QQuant Master Servicer Cyprus Limited ( "QQuant"), a newly formed company, for the management of the Bank's portfolio of Non Performing Exposures and Real Estate Owned Assets, completed on 21 August 2020 the Bank retains 25,1% of QQuant Master Servicer Cyprus Limited ( "QQuant").

Movement in the investment in associate company:

| | **2020**<br>**€** |
|---|---:|
| Initial recognition of investment in associate | 3.465.829 |
| Share of profit from investment in associate | 216.773 |
| | **3.682.602** |

The financial statements of the associate company used in applying the equity method are as of the date that is the same with the Bank's reporting date. The main financial highlights of the associate company are presented below:

| | **2020**<br>**€** |
|---|---:|
| Total assets | 2.723.930 |
| Total liabilities | (1.035.067) |
| **Net assets** | **1.688.863** |

Transactions between the associate company and the Group recognised in the income statement for the year ended:

| | **2020**<br>**€** |
|---|---:|
| Servicers administration fees (Incl. VAT) | **3.080.380** |
| Interest income on deferred cash consideration receivable | **62.978** |
| Other income | **151.667** |

Balances between associate company and the Group:

| **Amounts receivable** | **2020**<br>**€** |
|---|---:|
| Deferred cash consideration receivable by the Group (Note 24) | **5.867.728** |

| **Amounts payable** | **2020**<br>**€** |
|---|---:|
| Servicer's administration fees payable by the Group (Incl. VAT) | **1.753.000** |

## 24. OTHER ASSETS

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Prepaid expenses | 1.405.066 | 1.376.290 |
| Other receivables | 13.666.044 | 8.051.758 |
| | **15.071.110** | **9.428.048** |

Other receivables include the deferred cash consideration receivable from Qualco Holdco Limited of €5.867.728 (Note 23) and the receivable from National Bank of Greece (Cyprus) Ltd of €3.800.000 relating to the amount deposited per the Share and Purchase Agreement ("SPA"), which was signed on 26 November 2019 between AstroBank and National Bank of Greece (Note 46).

As at 31 December 2020, expected credit losses amounted to €394.354 (2019: €NIL) in other receivables, which were also recognised in the consolidated income statement for the year (2019: €NIL).

## 25. STOCK OF PROPERTY

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| 1 January | 147.664.972 | - |
| Transfer from investment properties | - | 139.798.690 |
| Additions | 4.956.660 | 14.611.223 |
| Disposals | (4.125.510) | (3.220.020) |
| Impairment | (3.692.834) | (3.524.921) |
| **Closing balance** | **144.803.288** | **147.664.972** |

The Group in its normal course of business acquires properties in debt satisfaction ("REOs"), which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties with an intention to be disposed of. These properties are recognised in the Group's consolidated financial statements as stock of property, reflecting the substance of these transactions.

The carrying amount of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2020 an impairment loss of €3.692.834 (2019: €3.524.921) was recognised in 'Impairment of non-financial assets' in the consolidated income statement.

At 31 December 2020 stock of property with a carrying amount of €115.094.422 (2019: €133.945.695) is carried at approximately its fair value less costs to sell.

The stock of properties include residential, offices and other commercial properties, hotels, shopping mall and industrial buildings and land (fields and plots).

During the year ended 31 December 2020, the Group disposed repossessed assets of a total amount of €4.125.510 (2019: €3.220.020) at a gain of €65.068 (2019: €258.777) (Note 9).

## 26. PROPERTY AND EQUIPMENT

| | Right of use assets | Property € | Equipment € | Total € |
|---|---|---|---|---|
| **2020** | | | | |
| Net book value at 1 January | 8.132.746 | 22.910.000 | 4.903.599 | 35.946.345 |
| Additions | 995.537 | 92.977 | 1.109.025 | 2.197.539 |
| Write offs/ Disposals | - | - | (12.022) | (12.022) |
| Derecognition | (845.374) | - | - | (845.374) |
| Contract modification | 9.725 | - | - | 9.725 |
| Depreciation (Note 12) | (1.225.751) | (241.385) | (1.283.772) | (2.750.908) |
| Property revaluation | - | 153.763 | - | 153.763 |
| Transfer between categories | - | (5.355) | 5.355 | - |
| **Net book value at 31 December** | **7.066.883** | **22.910.000** | **4.722.185** | **34.699.068** |
| | | | | |
| **1 January 2020** | | | | |
| Cost or valuation | 9.398.105 | 22.910.000 | 12.814.824 | 45.122.929 |
| Accumulated depreciation | (1.265.359) | - | (7.911.226) | (9.176.585) |
| **Net book value** | **8.132.746** | **22.910.000** | **4.903.598** | **35.946.344** |
| | | | | |
| **31 December 2020** | | | | |
| Cost or valuation | 9.557.993 | 22.910.000 | 13.865.317 | 46.333.310 |
| Accumulated depreciation | (2.491.110) | - | (9.143.132) | (11.634.242) |
| **Net book value** | **7.066.883** | **22.910.000** | **4.722.185** | **34.699.068** |
| | | | | |
| **2019** | | | | |
| Net book value at 1 January | - | 20.625.000 | 3.862.944 | 24.487.944 |
| Recognition of RoU asset upon adoption of IFRS 16 | 3.522.111 | - | - | 3.522.111 |
| Balance at 1 January following adoption of IFRS16 | **3.522.111** | **20.625.000** | **3.862.944** | **28.010.055** |
| Additions | 5.617.497 | 69.243 | 2.625.216 | 8.311.956 |
| Write offs/ Disposals | - | - | (535.243) | (535.243) |
| Re-measurement of right of use asset | 258.497 | - | - | 258.497 |
| Depreciation (Note 12) | (1.265.359) | (147.280) | (1.189.254) | (2.601.893) |
| Property revaluation | - | 2.502.973 | - | 2.502.973 |
| Transfer between categories | - | (139.936) | 139.936 | - |
| **Net book value at 31 December** | **8.132.746** | **22.910.000** | **4.903.599** | **35.946.345** |
| | | | | |
| **1 January 2019** | | | | |
| Cost or valuation | 3.522.111 | 20.625.000 | 11.154.487 | 35.301.598 |
| Accumulated depreciation | - | - | (7.291.543) | (7.291.543) |
| **Net book value** | **3.522.111** | **20.625.000** | **3.862.944** | 28.010.055 |
| | | | | |
| **31 December 2019** | | | | |
| Cost or valuation | 9.398.105 | 22.910.000 | 12.814.825 | 45.122.930 |
| Accumulated depreciation | (1.265.359) | - | (7.911.226) | (9.176.585) |
| **Net book value** | **8.132.746** | **22.910.000** | **4.903.599** | **35.946.345** |

Property includes land of €10.886.500 (2019: €10.886.500) for which no depreciation is charged. The latest property revaluation was performed in December 2020.

The net book value of property at 31 December 2020 based on cost less accumulated depreciation is €18.018.008 (2019: €17.930.386).

## 26. PROPERTY AND EQUIPMENT (continued)

The policy of the Group is to carry out valuations of its property every year. The Group performed revaluations in December 2020 and in December 2019.

A total revaluation gain of €153.678 was recognised during the year ended 31 December 2020 (2019: €2.502.973). Revaluation gain of €153.678 (2019: €672.678 ) was recognised in the revaluation reserve in equity and €NIL (2019: €1.830.295) was recognised in the consolidated income statement.

**Fair value of land and buildings**
An independent valuation of the Group's land and buildings was performed by two independent valuers to determine the fair value of the land and buildings as at 31 December 2020 and 2019. The loss on revaluation was charged to the consolidated income statement in accordance with the relevant accounting policy. The following table analyses the property carried at fair value, by method of valuation. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset that are not based on observable market data (that is unobservable inputs) (Level 3).

| | **Fair value measurements at 31 December 2020 using:** | | |
|---|---|---|---|
| | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| | **€** | **€** | **€** |
| **Recurring fair value measurements** | | | |
| Land and buildings | | | |
| – Office Buildings - Nicosia | - | - | **22.910.000** |

| | **Fair value measurements at 31 December 2019 using:** | | |
|---|---|---|---|
| | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| | **€** | **€** | **€** |
| **Recurring fair value measurements** | | | |
| Land and buildings | | | |
| – Office Buildings - Nicosia | - | - | **22.910.000** |

| | **Office building** | |
|---|---|---|
| | **2020** | **2019** |
| | **€** | **€** |
| Opening balance | 22.910.000 | 20.625.000 |
| Additions | 92.977 | 69.243 |
| Transfers to furniture and equipment | (5.355) | (139.936) |
| Depreciation charge | (241.385) | (147.280) |
| Revaluation gain | 153.763 | 2.502.973 |
| **Closing balance** | **22.910.000** | **22.910.000** |

**26. PROPERTY AND EQUIPMENT (continued)**

There were no transfers between fair value hierarchy levels during year 2020 and 2019.

During the years 2020 and 2019, there have been a limited number of similar sales in the local market and as a result, the Group had to adopt a valuation technique using unobservable inputs. Accordingly, the fair value was classified to Level 3.

The comparable method was used in combination with the replacement cost method and the investment method.

**Valuation processes of the Group**

On an annual basis, the Group engages external and qualified valuers to determine the fair value of land and buildings. As at 31 December 2020 and 2019, the fair value of the land and buildings has been determined as the average value based on the valuations.

The Level 3 valuations for land and buildings have been performed using the average of a sales comparison method and the replacement cost method. As there have been a limited number of similar sales for office buildings in Nicosia the valuations have been performed using unobservable inputs. The external valuers, have determined these inputs based on the size, age and condition of the land and buildings, the state of the local economy and comparable prices in the area.

**Information on fair value measurements using significant unobservable inputs (Level 3)**

| Description | Fair value at 31 December 2020 € | Valuation techniques | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|
| Office building - Nicosia | 22.910.000 | Land cost | Price per square metre | Approximately €4.000m² | The higher the price per square metre, the higher the fair value |
| | | Approximation of building construction | Price per square metre | Approximately €1.350² for ground floor and other floors and average €600μ² for basements | The higher the price per square metre, the higher the fair value |

| Description | Fair value at 31 December 2019 € | Valuation techniques | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|
| Office building - Nicosia | 22.910.000 | Land cost | Price per square metre | Approximately €5.000m² | The higher the price per square metre, the higher the fair value |
| | | Approximation of building construction | Price per square metre | Approximately €1.900m² for ground floor and other floors and €450μ² for basements | The higher the price per square metre, the higher the fair value |

## 27. INTANGIBLE ASSETS

| | Goodwill<br>€ | Software under development<br>€ | Computer Software<br>€ | Other Intangibles<br>€ | Total<br>€ |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Net book value at 1 January | - | - | 1.158.862 | 1.888.757 | 3.047.619 |
| Additions | - | 4.490.926 | 1.321.139 | - | 5.812.065 |
| Amortisation (Note 12) | - | - | (899.059) | (944.237) | (1.843.296) |
| **Net book value at 31 December** | **-** | **4.490.926** | **1.580.942** | **944.520** | **7.016.388** |
| | | | | | |
| **1 January 2020** | | | | | |
| Cost | **-** | - | 11.293.558 | 2.832.994 | 14.126.552 |
| Accumulated amortisation | - | - | (10.134.696) | (944.237) | (11.078.933) |
| **Net book value** | **-** | **-** | **1.158.862** | **1.888.757** | **3.047.619** |
| | | | | | |
| **31 December 2020** | | | | | |
| Cost | **-** | 4.490.926 | 12.614.697 | 2.832.994 | 19.938.617 |
| Accumulated amortisation | - | - | (11.033.755) | (1.888.474) | (12.922.229) |
| **Net book value** | **-** | **4.490.926** | **1.580.942** | **944.520** | **7.016.338** |
| | | | | | |
| **2019** | | | | | |
| Net book value at 1 January | - | - | 1.125.231 | **-** | 1.125.231 |
| Additions | 8.526.187 | - | 1.273.239 | 2.832.994 | 12.632.420 |
| Amortisation (Note 12) | - | - | (1.239.608) | (944.237) | (2.183.845) |
| Impairment of goodwill | (8.526.187) | - | - | - | (8.526.187) |
| **Net book value at 31 December** | **-** | **-** | **1.158.862** | **1.888.757** | **3.047.619** |
| | | | | | |
| **1 January 2019** | | | | | |
| Cost | - | - | 10.020.319 | - | 10.020.319 |
| Accumulated amortisation | - | - | (8.895.088) | - | (8.895.088) |
| **Net book value** | **-** | **-** | **1.125.231** | **-** | **1.125.231** |
| | | | | | |
| **31 December 2019** | | | | | |
| Cost | **-** | - | 11.293.558 | 2.832.994 | 14.126.552 |
| Accumulated amortisation | - | - | (10.134.696) | (944.237) | (11.078.933) |
| **Net book value** | - | - | **1.158.862** | **1.888.757** | **3.047.619** |

The Goodwill of €8.526.187 recognised due to the acquisition of USB bank business has been impaired during 2019. In addition, following the acquisition of USB bank business, an intangible asset of €2.832.994 was recognised on the consolidated statement of financial position relating to the transfer of clientele relationships from the acquisition of USB Bank business and classified as other intangible.

## 28. LEASES

The Group is a lessee for commercial properties such as office buildings and branches. The basic terms for lease contracts relating to the branch network are uniform irrespective of lessors, with the non-cancellable rental period usually being two years with an option to extend the tenancy. The rent is adjusted at the end of each renewal period according to the agreed terms and considering the relevant legislation.

*Low value assets*
The Bank has exercised judgement in determining the threshold of low value asset which was set at €5.000.

During the year ended 31 December 2020, the lease liability was remeasured due to changes in future lease payments and re-assessment of the lease term of existing contracts using the assumptions as detailed in Note 6.9.

The carrying amounts of the Group's right of use "RoU" assets and lease liabilities and the movement during the year is presented in the table below:

| **2020** | **Right of use Assets (Note 26) €** | **Lease Liabilities (Note 34) €** |
|---|---|---|
| 1 January | 8.132.746 | (5.836.864) |
| Assets derecognised | (845.374) | 845.374 |
| Re-measurement of lease liability | 995.537 | (995.537) |
| Contract modification | 9.725 | - |
| Depreciation charge for the year | (1.225.751) | - |
| Interest expense | - | (85.134) |
| Cash outflows | - | 1.216.089 |
| **Closing balance** | **7.066.883** | **(4.856.072)** |

| **2019** | **Right of use Assets (Note 26) €** | **Lease Liabilities (Note 34) €** |
|---|---|---|
| 1 January - Impact on adoption of IFRS 16 | 3.522.111 | (3.522.111) |
| Re-measurement of lease liability | 258.497 | (258.497) |
| Acquisition of USB Bank business | 5.617.497 | (3.015.471) |
| Depreciation charge for the year | (1.265.359) | - |
| Interest expense | - | (98.259) |
| Cash outflows | - | 1.057.474 |
| **Closing balance** | **8.132.746** | **(5.836.864)** |

RoU assets as at 31 December 2019 comprised of leases for buildings of €7.006.098 and leases for cars of €60.785, and are presented within Property and equipment, disclosed in Note 26.

Cash outflows relate to lease payments made in the year.

The analysis of lease liabilities based on remaining contractual maturity is disclosed in Note 44.

## 29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are calculated on all temporary differences using the applicable tax rates (Note 15). Deferred tax assets and liabilities are netted off when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax jurisdiction. The movement in deferred tax is as follows:

## 29. DEFERRED TAX ASSETS AND LIABILITIES (continued)

### Deferred tax assets

The movement in the deferred tax assets is set below:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Balance at 1 January | 3.789.023 | 5.857.226 |
| Change of future utilisation of tax losses | (1.940.657) | (2.057.998) |
| Change relating allowance for expected credit losses | 661.871 | (10.205) |
| **Balance at 31 December** | **2.510.237** | **3.789.023** |

### Deferred tax liabilities

The movement in the deferred tax liabilities is set below:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Balance at 1 January | 1.285.019 | 635.795 |
| Property revaluation - recognised in consolidated income statement | - | 396.232 |
| Property revaluation - recognised in consolidated statement of other comprehensive income (Note 36) | 36.126 | 81.452 |
| Deferred tax transferred via acquisition of USB Bank business | - | 171.540 |
| Difference between capital allowances and depreciation | 289.736 | |
| **Balance at 31 December** | **1.610.881** | **1.285.019** |

Deferred tax assets and liabilities are attributable to the following components:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Deferred tax assets** | | |
| Tax losses | 1.035.151 | 2.975.807 |
| Allowance for expected credit losses (2) | 1.475.086 | 813.216 |
| | **2.510.237** | **3.789.023** |
| **Deferred tax liabilities** | | |
| Property revaluation (1) | 1.150.029 | 1.113.903 |
| Difference between capital allowances and depreciation | 460.852 | 171.116 |
| | **1.610.881** | **1.285.019** |

(1) It comprises of the Group’s headquarters on 1 Spyrou Kyprianou Street, Nicosia which was last revalued on December 2020.

(2) The Bank has recognised a deferred tax asset on the provisions on stage 1 and stage 2 loans. The deferred tax asset recognised relates to the effect of expected credit losses which are expected to materialize in future periods.

The deferred tax (charge) /credit in the consolidated income statement relates to temporary differences as follows:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Tax losses | (1.940.657) | (2.057.998) |
| Allowance for expected credit losses | 661.871 | (10.205) |
| Property revaluation | - | (396.232) |
| Difference between capital allowances and depreciation | (289.736) | - |
| **Total** (Note 15) | **(1.568.522)** | **(2.464.435)** |

## 30. AMOUNTS DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Analysis by geographical sector** | | |
| | | |
| Cyprus | 13.454.393 | 8.066.321 |
| Greece | 2.542.376 | 483.661 |
| Other countries | 24.929.466 | 9.371.244 |
| | **40.926.235** | **17.921.226** |

## 31. FUNDING FROM CENTRAL BANKS

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations as set out in the table below:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Targeted Longer-Term Refinancing Operations (TLTRO III) | 299.222.859 | - |
| Pandemic Emergency Longer Term Refinancing Operations (PELTRO) | 99.845.891 | - |
| **Total** | **399.068.750** | **-** |

In order to cope with the effects of Covid-19 pandemic, ensure adequate liquidity, normalize market's condition and support the credit expansion, European Central Bank (ECB) gradually announced since March 2020 a series of measures such as amendment on terms of the Targeted Longer Term Refinancing Operations III and a new bunch of non-targeted longer term refinancing operations due to the pandemic (Pandemic Emergency Longer Term Refinancing Operations - PELTRO).

As at 31 December 2020, ECB funding amounted to €400 million and was borrowed €100 million from PELTRO and €300 million from the TLTRO III (2019: €NIL). The maturity of PELTRO is on 30 September 2021 and for the TLTRO III is three years from the settlement of each operation. There is an option available to repay the amounts borrowed under TLTRO III one year from the settlement of each operation starting in September 2021.

ECB has 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 1,0% which is currently the expected rate.

In calculating the interest the Group 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 consider 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.

Interest income recognized in 2020 and 2019 from the above transactions is included in "Interest income" in the Consolidated Income Statement.

Details on encumbered assets related to the above funding facilities are disclosed in Note 40.

## 32. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

### Analysis by type of deposit

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Demand | 1.274.046.118 | 1.028.824.510 |
| Savings | 342.226.569 | 276.364.652 |
| Term | 489.458.199 | 702.235.923 |
| **Total** | **2.105.730.886** | **2.007.425.085** |

### Analysis by customer type

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Large entities and organisations | 118.298.404 | 149.876.215 |
| Small and medium size enterprises | 881.398.114 | 828.619.964 |
| Deposits from individuals | 1.106.034.368 | 1.028.928.906 |
| **Total** | **2.105.730.886** | **2.007.425.085** |

## 32. DEPOSITS AND OTHER CUSTOMER ACCOUNTS (continued)

### Analysis by line

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Retail | 1.219.148.175 | 1.214.759.402 |
| Corporate | 100.659.732 | 143.877.386 |
| International banking services | 699.622.673 | 561.574.756 |
| Wealth management | 82.456.372 | 82.793.691 |
| Recoveries banking unit | 3.843.934 | 4.419.850 |
| **Total** | **2.105.730.886** | **2.007.425.085** |

### Analysis by currency

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Euro | 1.701.814.788 | 1.668.947.315 |
| US Dollar | 356.211.427 | 294.359.070 |
| British Pound | 37.359.932 | 31.407.133 |
| Swiss Franc | 1.201.270 | 1.147.780 |
| Other | 9.143.469 | 11.563.787 |
| **Total** | **2.105.730.886** | **2.007.425.085** |

### Analysis by geographical area

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Cyprus | 1.742.952.753 | 1.684.189.398 |
| Greece | 79.543.546 | 102.947.634 |
| Russia | 11.899.815 | 14.594.815 |
| Lebanon | 129.762.824 | 52.941.931 |
| British Virgin Islands | 9.706.326 | 18.096.262 |
| Other countries | 131.865.622 | 134.655.045 |
| **Total** | **2.105.730.886** | **2.007.425.085** |

Deposits by geographical area are based on the country of operations/residence of the customers.

## 33. SUBORDINATED BOND

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| 8% Redeemable Subordinated Tier 2 Bonds | 16.403.595 | - |
| Issue costs | (282.209) | - |
| | **16.121.386** | **-** |

During 2020, the Bank issued a €16.403.595 unsecured and subordinated Tier 2 Bond. The Bond was priced at par with a coupon of 8% per annum, payable quarterly. The Bond matures ten years from the issuance date. The Bank may redeem all of the Bonds on any Interest Payment Date following the fifth anniversary of the issuance date of the relevant Bond, subject to applicable regulatory consents.

The Bank considers that the fair value of the Bond as at 31 December 2020 approximates its book value.

## 34. OTHER LIABILITIES

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Expenses payable | 4.103.256 | 4.429.954 |
| Outstanding customers banking transactions | 56.123.584 | 32.358.433 |
| Provisions for financial guarantees and commitments | 1.449.969 | 969.323 |
| Current tax liabilities | 111.489 | 111.232 |
| Lease liabilities (Note 28) | 4.856.072 | 5.836.864 |
| Other liabilities | 15.331.653 | 13.218.718 |
| **Total** | **81.976.023** | **56.924.524** |

## 35. SHARE CAPITAL, SHARE PREMIUM AND PREFERENCE SHARES

| | Authorised share capital | | Issued share capital | |
|---|---|---|---|---|
| | Number of shares | € | Number of shares | € |
| Ordinary shares | **40.000.000** | **40.000.000** | **23.624.789** | **179.008.150** |

| | Share Capital<br>€ | Share Premium<br>€ | Preference Shares<br>€ | Total<br>€ |
|---|---|---|---|---|
| **1 January 2019** | 14.113.487 | 88.554.704 | - | 102.668.191 |
| Issue of shares | 5.648.267 | 38.351.732 | 10.000.000 | 53.999.999 |
| **31 December 2019** | **19.761.754** | **126.906.436** | **10.000.000** | **156.668.190** |
| | | | | |
| **1 January 2020** | 19.761.754 | 126.906.436 | 10.000.000 | 156.668.190 |
| Issue of shares | 2.613.035 | 20.512.325 | - | 23.125.360 |
| Issue costs | - | (785.400) | - | (785.400) |
| Conversion of preference shares | 1.250.000 | 8.750.000 | (10.000.000) | - |
| **31 December 2020** | **23.624.789** | **155.383.361** | **-** | **179.008.150** |

***Authorised share capital***

There were no changes to the authorised share capital during the year ended 31 December 2020.

On 14 November 2019, in an Extraordinary General Meeting the Bank approved the increase of the authorized ordinary share capital of the Bank from 22.750.000 ordinary shares of a nominal value of €1 each into 40.000.000 ordinary shares as per the terms and rights described in the Article of Association of the Company as amended by Special Resolution at the same date.

## 35. SHARE CAPITAL, SHARE PREMIUM AND PREFERENCE SHARES (continued)

***Issued share capital and share premium***

During the Board of Directors meeting on 22 June 2020 the Bank has examined and approved the request for conversion of the 1.250.000 redeemable preference shares into 1.250.000 ordinary shares of nominal value €1 each and a share premium of €7 each.

During the year 2020, the Bank has issued and allotted 2.613.035 ordinary shares of nominal value €1 each at a share premium of €7,85 each, resulting in an increase in the issued share capital by €2.613.035 and an increase in share premium by €20.512.325.

Following the conversion of the redeemable preference shares and the issue of share capital, the share capital and share premium amounted to €23.624.789 and €155.383.361 respectively. Share premium includes capital raising costs of €785.400.

On 17 January 2019, as part of the acquisition of USB Bank's business, there was an increase in the Bank's ordinary share capital by €44m (5.648.267 shares at €1 nominal and €6,79 share premium per share) and an issue of preference shares eligible as Tier 1 capital of €10m (1.250.000 shares with a nominal value of €1 and a subscription price of €8 per share).

## 36. RETAINED EARNINGS AND OTHER RESERVES

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Retained earnings** | | |
| Balance at 1 January | 25.153.915 | 8.407.676 |
| Transfer from disposal of equity shares classified at FVTOCI | 69.764 | - |
| Profit for the year attributable to the Group's shareholders | (18.109.484) | 16.746.239 |
| **Balance at 31 December** | **7.114.195** | **25.153.915** |
| | | |
| **Fair value reserve** | | |
| Balance at 1 January | 544.201 | 716.834 |
| Property revaluation | 153.678 | 672.678 |
| Deferred tax on revaluation of property held for own use | (36.125) | (81.452) |
| Revaluation for the year on FVTOCI financial assets | 14.560 | (763.859) |
| Disposal of equity shares classified at FVTOCI | (69.764) | - |
| **Balance 31 December** | **606.550** | **544.201** |

Fair value reserve includes revaluation and deferred tax on property held for own use and revaluation on FVTOCI financial assets.

## 37. CONTINGENT LIABILITIES AND COMMITMENTS

### Credit – related financial instruments

Credit-related financial instruments include commitments relating to credit guarantees and letters of guarantee, issued in order to meet the financial requirements of the Group's customers. The credit risk on these transactions corresponds to the total contract amount. However, the majority of these facilities are offset by corresponding commitments by third parties.

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| ***Contingent liabilities*** | | |
| Credit guarantees | 909.127 | 3.489.253 |
| Letters of guarantees | 64.359.060 | 54.128.848 |
| | **65.268.187** | **57.618.101** |
| ***Commitments*** | | |
| Unutilised limits | **152.187.255** | **113.219.552** |
| | | |
| **Total contingent liabilities and commitments** | **217.455.442** | **170.837.653** |

## 37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

As at 31 December 2020 letters of guarantee of €19.703.090 (31 December 2019: €19.981.181) had a maturity date beyond one year. The aggregate amount of credit guarantees had a maturity date within one year. The amounts are interest free and are presented at their book value since the effect of discounting is not significant.

**Capital commitments**
Capital commitments for the renovation of branches and IT expenditure as at 31 December 2020 amount to €297.390 and €660.472 respectively . There were no commitments for contracted capital expenditure of the Bank as at 31 December 2019.

**Legal proceedings**

As at 31 December 2020 there were pending litigations against the Group in connection with its activities. While the outcome of these matters is inherently uncertain, Group's Management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2020 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

*Set off of receivables with deposits*
Case concerns a set off of a receivable against a deposit. The plaintiffs allege that the Defendants wrongly proceeded to a set off against plaintiffs' pledged deposit and claim the same amount back. The Group's position is that the set off was lawful and properly effected. The case was adjourned many times.

*Letters of guarantees*
Two pending court actions against the Bank in respect of letters of guarantee issued as security for the issuance of title deeds provided as mortgaged for facilities granted. Total sum of claim is for an amount of €362.095 plus interest and costs.

*Claims relating to execution of transactions*
Pending actions against the Bank where the Plaintiffs allege that the Bank has wrongly proceeded with and/or utilized and/or disposed of amount of money held by/on behalf of its Customer, in breach of the Bank's duty of care and trust.

*Competition Law case which was transferred with the acquisition of USB Bank business*
After the issuance of a decision by the Competition Committee, against USB and other Banks imposing a fine for an infringement of Competition, the USB along with other Bank's fined as well proceeded with filing of an Appeal against such decision at the Administrative Court. The Administrative Court accepted the appeal of all Banks for the reason put forward by the Banks in the Appeal namely the composition of the Competition Authority Committee. The Committee proceeded with filing of an appeal at the Supreme Court which is still pending. In case the Supreme Court decides in favour of the Appellant (i.e. the Competition Authority) the whole case will have to return for adjudication by the Administrative Court. If the Supreme Court rejects the Appeal then the case will be considered as closed and therefore the Bank will not be called to pay any amount of money. The amount of the claim is for €121.519.

## 38. HEDGE ACCOUNTING

The Group enters into fair value hedges, using interest rate swaps, in order to protect itself against movements in the fair value of fixed-rate financial instruments due to movements in market interest rates. The Bank designates these interest rate swaps as hedging instruments in respect of interest rate risk in fair value hedges. The hedged items are certain fixed rate Cyprus Government Bonds ("CGBs"). Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

The amounts relating to items designated as hedging instruments, hedged items and hedge ineffectiveness were as follows:

**31 December 2020**

| | Notional amount | Carrying amount | | Financial Statement line | Accumulated fair value hedge adjustment of the hedged item | Change in fair value used for calculating hedge ineffectiveness | Ineffectiveness recognized in consolidated income statement |
|---|---|---|---|---|---|---|---|
| | | Assets | Liabilities | | | | |
| | € | € | € | € | € | € | € |
| **Hedging instrument** | | | | | | | |
| Interest rate swaps (Note 18) | 5.000.000 | - | 517.931 | Derivative financial instruments | - | (517.931) | (2.788) |
| | | | | | | | |
| **Hedged item** | | | | | | | |
| Cyprus Government bonds | | 5.506.742 | - | Debt securities | 515.143 | 515.143 | |

## 39. GROUP COMPANIES

The subsidiary companies included in the consolidated financial statements of the Group, their country of incorporation, their activities and the percentage of share capital held by the Bank as at 31 December 2020 are listed below. The Bank has direct and indirect 100% shareholding in the following companies.

| | Country of incorporation | Activities | Percentage holding % |
|---|---|---|---|
| **Carbinor Consultants Limited** | Cyprus | Secretarial services to the Bank's SPVs | 100% |
| **Meribas Limited** | Cyprus | Director of the Bank's SPVs | 100% |
| **A.P.M. Control Company Limited** | Cyprus | Property holding | 100% |
| **A.P.M. Firstsun Company Limited** | Cyprus | Property holding | 100% |
| **Adflikton Investments Limited** | Cyprus | Property holding | 100% |
| **Ailanthus Holding Limited** | Cyprus | Property holding | 100% |
| **Alarconaco Enterprises Limited** | Cyprus | Property holding | 100% |
| **Amatorco Limited** | Cyprus | Property holding | 100% |
| **Averrhoa Limited** | Cyprus | Property holding | 100% |
| **Azulito Ventures Limited** | Cyprus | Property holding | 100% |
| **Bakkens Limited** | Cyprus | Property holding | 100% |
| **Bequelia Ventures Limited** | Cyprus | Property holding | 100% |
| **Callistem Holdings Limited** | Cyprus | Property holding | 100% |
| **Castlehawk Limited** | Cyprus | Property holding | 100% |
| **Conaria Holding Limited** | Cyprus | Property holding | 100% |
| **Costpleo Investments Limited** | Cyprus | Property holding | 100% |
| **Crantenia Ventures Limited** | Cyprus | Property holding | 100% |
| **Cutsofiar Enterprises Limited** | Cyprus | Property holding | 100% |
| **Dacibel Limited** | Cyprus | Property holding | 100% |
| **Dicoder Limited** | Cyprus | Property holding | 100% |
| **Firstplatinum Company Limited** | Cyprus | Property holding | 100% |
| **Gianteto Limited** | Cyprus | Property holding | 100% |
| **Gravieron Company Limited** | Cyprus | Property holding | 100% |
| **Kaihur Investment Limited** | Cyprus | Property holding | 100% |
| **Kantadia Ventures Limited** | Cyprus | Property holding | 100% |
| **Lardonia Limited** | Cyprus | Property holding | 100% |
| **Macerio Limited** | Cyprus | Property holding | 100% |
| **Olemo Limited** | Cyprus | Property holding | 100% |
| **Openstar International Company Limited** | Cyprus | Property holding | 100% |
| **Pertanam Enterprises Limited** | Cyprus | Property holding | 100% |
| **Rockory Enterprises Limited** | Cyprus | Property holding | 100% |
| **Rowington Ventures Limited** | Cyprus | Property holding | 100% |
| **Sabatia Limited** | Cyprus | Property holding | 100% |
| **Scaevola Ventures Limited** | Cyprus | Property holding | 100% |
| **Shortia Limited** | Cyprus | Property holding | 100% |
| **Snaresbrook Ventures Limited** | Cyprus | Property holding | 100% |
| **Tipuana Ventures Limited** | Cyprus | Property holding | 100% |
| **Todero Limited** | Cyprus | Property holding | 100% |
| **Tomentos Holdings Limited** | Cyprus | Property holding | 100% |
| **Viegiot Investments Limited** | Cyprus | Property holding | 100% |
| **Xepa Limited** | Cyprus | Property holding | 100% |
| **Yurania Investments Limited** | Cyprus | Property holding | 100% |
| **Delaway Limited** | Cyprus | Intermediate holding company | 100% |
| **Dusanic Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **Imagetech Limited** | Cyprus | Intermediate holding company | 100% |
| **Lewisia Holdings Limited** | Cyprus | Intermediate holding company | 100% |

## 39. GROUP COMPANIES (continued)

| | Country of incorporation | Activities | Percentage holding % |
|---|---|---|---|
| **Olcinia Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **Osperus Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **Naila Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **Perekin Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **Perequito Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **Serissa Holdings Limited** | Cyprus | Intermediate holding company | 100% |
| **AstroBank Insurance Agency Limited** | Cyprus | Insurance broker | 100% |
| **Axalus Limited** | Cyprus | Dormant | 100% |
| **EMF Investors Limited** | Cyprus | Dormant | 100% |
| **Infavero Limited** | Cyprus | Dormant | 100% |
| **Verion Limited** | Cyprus | Dormant | 100% |

## 40. MANAGEMENT OF FINANCIAL RISKS

Like any other banking group, the Group is exposed to a variety of risks from the financial instruments it holds. These risks are monitored on a continuous basis using various methods, so as to avoid the excessive concentration of risk. The nature of these risks as well as the ways in which they are managed are outlined below.

### Credit risk

Credit risk arises from the possibility of losses relating to late payments or failure to pay the Group by its counterparties. Credit risk management focuses on ensuring a disciplined risk culture, transparency and rational risk taking, based on international best practices.

The Group's Management has established the provisions for the impairment of financial assets based on the economic conditions and prospects as at the reporting period end.

The provision for loans and advances is determined using the method of expected credit losses model as required by the relevant accounting standards.

*Credit risk management*

Credit risk management methodologies are reassessed and modified if required to reflect the changing financial environment. The various credit risk assessment methods used are revised annually or whenever deemed necessary and are adjusted according to the Group's overall strategy and short-term and long-term objectives.The various analyses of economic sectors and sub-sectors, combined with economic forecasts, provide the guidelines for the determination of the credit policy, which is revised from time to time.

Having as target the minimisation of credit risk, counterparty limits have been set, at the same time taking into consideration the credit rating of the debtor, the assigned collaterals and guarantees that reduce the exposure of the Group to credit risk, as well as the nature and duration of the credit facility. Regarding each debtor's credit rating analysis, this is carried out by taking into consideration the country's risk but also the economic sector in which it operates, as well as qualitative and quantitative characteristics.

At the same time, limits have been established for the approval of credit facilities and lending procedures in order to ensure the objectivity, independence and monitoring of new and existing loans.

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

During the approval process the total credit risk is examined for each counterparty or group of counterparties which are related at group level. At the same time, any concentration is analysed and monitored on a continuous basis, with an aim to restrict potential large openings and dangerous concentrations, so that these will be in line with existing credit policy limits. Concentration of credit risk can arise at the level of an economic sector, at counterparty or group of counterparties, country, currency or nature of collateral.

Past due advances are monitored on a continuous basis and a systematic segregation between performing and non–performing advances is carried out according to the internal policy of the Group which takes into account the criteria of the Central Bank of Cyprus Directive and EBA Guidelines. Significant exposures or delays are communicated to the Management which oversees the corresponding department for taking preventive or corrective measures.

Under the credit risk management framework, there is an evaluation of the effects of extreme but feasible scenarios on the quality of the loan portfolio and to the available capital, through simulation of crisis conditions (stress testing). The simulations examine separately each business and individual portfolio and estimate possible increases of unsecured advances which are likely to arise due to future decreases in collateral values. The unsecured exposures are calculated based on values after the application of haircuts as defined by the Credit policy.

*Internal rating systems*

The methods for evaluation of credit rating differ depending on the type of counter party in the following categories: central governments (purchase and holding of bonds), financial institutions, large corporates and SMEs and individuals.

Individuals are evaluated based on two different methods of internal grading. The first method relates to existing customers and is based on the customers' repayment history and their general cooperation with the Group, while the second method is based both on demographic factors and objective financial data (e.g. income, assets etc.) and is applied to both existing and new customers.

For the evaluation of large corporate and SMEs, the system used is Moody's Risk Advisor (MRA), which evaluates the financial condition of the business based on its economic and qualitative data, but also based on the economic sector it operates in.

The evaluation process is performed on a regular basis or when conditions require it so that the customer' s credit score is representative of the credit risk being undertaken and functions as a risk warning sign.

*Maximum exposure to credit risk before collaterals and other credit improvements*

The customer's credit rating is used during the process of approving credit facilities and the setting of respective credit limits, for internal calculations of the probability of default as well as for monitoring changes in the quality of the loan portfolio of the Group, with the aim to develop the appropriate strategies for avoiding undertaking increased risks.

The table below presents the maximum exposure to credit risk that results from financial instruments included in the consolidated balance sheet, without taking into consideration collaterals or any other credit mitigations received. For financial assets included in the consolidated statement of financial position, the exposure to credit risk is equal to their carrying value.

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

| | Maximum exposure | |
|---|---|---|
| | 31 December 2020 € | 31 December 2019 € |
| **Credit risk exposure on balance sheet items:** | | |
| Balances with Central Banks | 573.913.279 | 224.345.059 |
| Placements with other banks | 55.678.884 | 90.502.226 |
| Loans and advances to customers | 1.100.393.485 | 997.890.657 |
| Debt securities | 858.895.721 | 698.532.762 |
| Financial assets at fair value through profit or loss | 11.442.108 | 23.168.149 |
| Derivative financial instruments | 110.624 | 225.113 |
| Other assets | 13.666.044 | 8.051.758 |
| | **2.614.100.145** | **2.042.715.724** |
| **Credit risk exposure from off balance sheet items:** | | |
| Credit guarantees | 909.127 | 3.489.253 |
| Letters of guarantee | 64.359.060 | 54.128.848 |
| Unutilised credit limits | 152.187.255 | 113.219.552 |
| | **217.455.442** | **170.837.653** |
| | | |
| **Total on and off balance sheet items** | **2.831.555.587** | **2.213.553.377** |

According to the above table, 22% (31 December 2019: 14%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 39% (31 December 2019: 45%) from loans and advances to customers and 30% (31 December 2019: 32%) is derived from investment in bonds classified at amortised cost and at fair value through profit or loss.

The Group obtains collaterals so as to better manage the credit risk that arises from loans and advances. The main types of collaterals that the Group obtains are: (a) mortgages, (b) bank guarantees, (c) deposits, (d) pledging of shares, (e) other encumbrances and (f) personal and corporate guarantees.

The Group's Management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

The Group's maximum exposure to credit risk is analysed by geographical area as follows:

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

| | Maximum exposure | |
|---|---|---|
| | **31 December 2020 €** | **31 December 2019 €** |
| **On balance sheet** | | |
| Cyprus | 1.966.782.148 | 1.378.636.392 |
| Greece | 260.919.781 | 298.291.905 |
| Other countries | 386.398.216 | 365.787.427 |
| | **2.614.100.145** | **2.042.715.724** |
| | | |
| **Off balance sheet** | | |
| Cyprus | 205.197.672 | 159.156.467 |
| Greece | 9.984.736 | 7.731.375 |
| Other countries | 2.273.034 | 3.949.811 |
| | **217.455.442** | **170.837.653** |
| **Total on and off balance sheet** | | |
| Cyprus | 2.171.979.820 | 1.537.792.859 |
| Greece | 270.904.517 | 306.023.280 |
| Other countries | 388.671.250 | 369.737.238 |
| | **2.831.555.587** | **2.213.553.377** |

Geographical analysis is based on the counterparty country of risk.

**40.1 Collateral and other credit enhancements of financial assets subject to credit risk**

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held.

The fair value of the real estate collateral presented in the tables below for the loans and receivables is the market value after indexation capped at the gross loans amount or mortgage plus interest if lower.

The main types of collateral obtained by the Bank and classified as “other” are pledges of equity securities, fixed and floating charges over corporate assets and assignment of life insurance policies.

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

**40.1 Collateral and other credit enhancements of financial assets subject to credit risk (continued)**

| 31 December 2020 | Exposure to credit risk | Cash | Letters of credit/ guarantee | Other | Property | Total collateral | Net exposure to credit risk | Surplus collateral |
|---|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € | € |
| Balances with Central Banks | 573.913.279 | - | - | - | - | - | 573.913.279 | - |
| Placements with other banks | 55.678.884 | - | - | - | - | - | 55.678.884 | - |
| Derivative financial instruments | 110.624 | - | - | - | - | - | 110.624 | - |
| Financial assets at fair value through profit or loss | 11.442.108 | - | - | - | - | - | 11.442.108 | - |
| Debt securities | 858.895.721 | - | - | - | - | - | 858.895.721 | - |
| Loans and advances to customers | 1.100.393.485 | 36.571.937 | 57.560.421 | 61.927.949 | 775.719.649 | 931.779.956 | 168.613.529 | 359.581.321 |
| Other assets | 13.666.044 | - | - | - | - | - | 13.666.044 | - |
| **Total on balance sheet** | **2.614.100.145** | **36.571.937** | **57.560.421** | **61.927.949** | **775.719.649** | **931.779.956** | **1.682.320.189** | **359.581.321** |
| | | | | | | | | |
| Credit guarantees | 909.127 | - | - | - | 12.309 | 12.309 | 896.818 | - |
| Letters of guarantee | 64.359.060 | 7.662.103 | - | 145.973 | 5.530.811 | 13.338.887 | 51.020.173 | 3.198.848 |
| Unutilised limits | 152.187.255 | - | - | - | - | - | 152.187.255 | - |
| **Total off balance sheet** | **217.455.442** | **7.662.103** | **-** | **145.973** | **5.543.120** | **13.351.196** | **204.104.246** | **3.198.848** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

**40.1 Collateral and other credit enhancements of financial assets subject to credit risk (continued)**

| **31 December 2019** | **Exposure to credit risk** | **Cash** | **Letters of credit/ guarantee** | **Other** | **Property** | **Total collateral** | **Net exposure to credit risk** | **Surplus collateral** |
|---|---|---|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** | **€** | **€** | **€** |
| Balances with Central Banks | 224.345.059 | - | - | - | - | - | 224.345.059 | **-** |
| Placements with other banks | 90.502.226 | - | - | - | - | - | 90.502.226 | **-** |
| Derivative financial instruments | 225.113 | - | - | - | - | - | 225.113 | **-** |
| Financial assets at fair value through profit or loss | 23.168.149 | - | - | - | - | - | 23.168.149 | **-** |
| Debt securities | 698.532.762 | - | - | - | - | - | 698.532.762 | **-** |
| Loans and advances to customers | 997.890.657 | 27.658.855 | 56.526.786 | 41.413.342 | 699.621.001 | 825.219.984 | 172.670.673 | 389.574.590 |
| Other assets | 8.051.758 | - | - | - | - | - | 8.051.758 | - |
| **Total on balance sheet** | **2.042.715.724** | **27.658.855** | **56.526.786** | **41.413.342** | **699.621.001** | **825.219.984** | **1.217.495.740** | **389.574.590** |
| | | | | | | | | |
| Credit guarantees | 3.489.253 | - | - | - | 87.712 | 87.712 | 3.401.541 | - |
| Letters of guarantee | 54.128.848 | 8.164.078 | - | 526.444 | 4.874.939 | 13.565.461 | 40.563.387 | 3.510.161 |
| Unutilised limits | 113.219.552 | - | - | - | - | - | 113.219.552 | - |
| **Total off balance sheet** | **170.837.653** | **8.164.078** | **-** | **526.444** | **4.962.651** | **13.653.173** | **157.184.480** | **3.510.161** |

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### 40.1 Collateral and other credit enhancements of financial assets subject to credit risk (continued)

For ECL calculation purposes the off balance sheet exposures are multiplied with credit conversion factors.

### 40.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group. The Group's risk appetite statement imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of these internal limits over time.

The credit risk concentration, which is based on industry (economic activity) and business line concentrations, as well as geographical concentration, is presented below. The geographical concentration, for credit risk concentration purposes, is based on the Group's Risk Appetite Framework which sets limits based on a number of factors like the specific country's credit rating and the political and economic conditions. Market Risk is responsible for analysing the country risk of exposures on a quarterly basis and the Board Risk Committee and ALCO review the country risk of exposures and any breaches of country risk limits on a regular basis. The exposures are analysed by country of risk based on the country of operations and/or source of income or the country where the tangible security is held.

| **2020** | **Cyprus**<br>**€** | **Greece**<br>**€** | **Other countries**<br>**€** | **Gross loans at amortised cost**<br>**€** |
|---|---|---|---|---|
| ***By economic activity*** | | | | |
| Commerce | 115.037.976 | 4.620 | 13 | 115.042.609 |
| Industrial | 51.423.163 | - | 1.953.724 | 53.376.887 |
| Other sectors | 496.999.402 | 27.622.582 | 85.677.130 | 610.299.114 |
| Real estate and construction | 285.943.211 | 6.861.558 | 30.747.449 | 323.552.218 |
| Tourism | 75.871.955 | 37.246.811 | - | 113.118.766 |
| Financial institutions | 48.955.462 | - | 14.402.939 | 63.358.401 |
| Governments | 4.204.706 | - | - | 4.204.706 |
| **Total** | **1.078.435.875** | **71.735.571** | **132.781.255** | **1.282.952.701** |

| **2019** | **Cyprus**<br>**€** | **Greece**<br>**€** | **Other countries**<br>**€** | **Gross loans at amortised cost**<br>**€** |
|---|---|---|---|---|
| ***By economic activity*** | | | | |
| Commerce | 116.533.302 | 4.082 | - | 116.537.384 |
| Financial institutions | 53.578.441 | - | 18.748.001 | 72.326.442 |
| Governments | 3.305.318 | - | - | 3.305.318 |
| Industrial | 44.413.303 | 694.365 | - | 45.107.668 |
| Other sectors | 452.903.260 | 880.176 | 70.244.231 | 524.027.667 |
| Real estate and construction | 260.479.565 | 7.384.664 | 32.845.593 | 300.709.822 |
| Tourism | 65.337.555 | 30.720.720 | 0 | 96.058.275 |
| **Total** | **996.550.744** | **39.684.007** | **121.837.825** | **1.158.072.576** |

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

### 40.2 Credit risk concentration of loans and advances to customers (continued)

| **2020** | **Cyprus** €| **Greece** € | **Other countries** € | **Gross loans at amortised cost** € |
|---|---|---|---|---|
| ***By business line*** | | | | |
| Corporate | 545.022.638 | 68.124.244 | 122.882.156 | 736.029.038 |
| International Business Unit | 420.448 | 10.448 | 25.944 | 456.840 |
| Recoveries Banking Unit | 344.246.161 | 37.381 | 3.368.013 | 347.651.555 |
| Retail | 188.745.459 | 559.779 | 6.505.142 | 195.810.380 |
| Wealth management | 1.169 | 3.003.719 | - | 3.004.888 |
| **Total** | **1.078.435.875** | **71.735.571** | **132.781.255** | **1.282.952.701** |

| **2019** | **Cyprus** € | **Greece** € | **Other countries** € | **Gross loans at amortised cost** € |
|---|---|---|---|---|
| ***By business line*** | | | | |
| Corporate | 501.287.218 | 37.806.584 | 111.747.044 | 650.840.846 |
| International Business Unit | 1.547.574 | 1.207.578 | 37.515 | 2.792.667 |
| Recoveries Banking Unit | 335.255.353 | 30.739 | 3.206.044 | 338.492.136 |
| Retail | 158.370.473 | 639.106 | 6.476.410 | 165.485.989 |
| Wealth management | 90.126 | 0 | 370.812 | 460.938 |
| **Total** | **996.550.744** | **39.684.007** | **121.837.825** | **1.158.072.576** |

### 40.3 Currency concentration of loans and advances to customers

| **Gross loans at amortised cost** | **2020** | **2019** |
|---|---|---|
| Euro | 1.109.787.301 | 1.005.360.350 |
| US Dollar | 120.605.956 | 96.749.397 |
| Pound sterling | 32.907.405 | 35.463.698 |
| Swiss Franc | 18.987.879 | 19.801.643 |
| Other currencies | 664.160 | 697.488 |
| **Total** | **1.282.952.701** | **1.158.072.576** |

### 40.4 Analysis of loans and advances to customers by staging

| **31 December 2020** | **Stage 1** € | **Stage 2** € | **Stage 3** € | **POCI** € | **Total** € |
|---|---|---|---|---|---|
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | 742.440.962 | 144.320.898 | 233.429.443 | 314.675.214 | 1.434.866.517 |
| Residual fair value adjustment on initial recognition | 1.501.847 | (256.973) | 224.386 | (153.383.076) | (151.913.816) |
| **Gross loans at amortised cost** | **743.942.809** | **144.063.925** | **233.653.829** | **161.292.138** | **1.282.952.701** |

### 40. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

**40.4 Analysis of loans and advances to customers by staging (continued)**

| 31 December 2019 | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| Gross loans at amortised cost before residual fair value adjustment on initial recognition | 641.557.791 | 111.993.130 | 247.626.744 | 302.486.987 | 1.303.664.652 |
| Residual fair value adjustment on initial recognition | 1.664.296 | 493.792 | (293.970) | (147.456.194) | (145.592.076) |
| **Gross loans at amortised cost** | **643.222.087** | **112.486.922** | **247.332.774** | **155.030.793** | **1.158.072.576** |

The following tables present the Group's loans and advances to customers at amortised cost by staging and by business line concentration.

| 31 December 2020 | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| Corporate | 563.995.988 | 128.026.274 | 19.573.213 | 24.433.563 | 736.029.038 |
| International Business Unit | 449.356 | 6.231 | 1.052 | 201 | 456.840 |
| Recoveries Banking Unit | 6.116.872 | 1.565.739 | 205.336.793 | 134.632.151 | 347.651.555 |
| Retail | 170.375.705 | 14.465.681 | 8.742.771 | 2.226.223 | 195.810.380 |
| Wealth management | 3.004.888 | - | - | - | 3.004.888 |
| **Total** | **743.942.809** | **144.063.925** | **233.653.829** | **161.292.138** | **1.282.952.701** |
| | | | | | |
| **Cyprus** | 566.906.593 | 126.950.907 | 223.856.646 | 160.721.730 | 1.078.435.876 |
| **Greece** | 56.795.105 | 14.892.526 | 47.940 | - | 71.735.571 |
| **Other countries** | 120.241.111 | 2.220.492 | 9.749.243 | 570.408 | 132.781.254 |
| **Total** | **743.942.809** | **144.063.925** | **233.653.829** | **161.292.138** | **1.282.952.701** |

| 31 December 2019 | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| Corporate | 496.660.518 | 92.844.060 | 40.110.189 | 21.226.079 | 650.840.846 |
| International Business Unit | 2.120.417 | 1.703 | 670.427 | 120 | 2.792.667 |
| Recoveries Banking Unit | 5.533.692 | 3.312.305 | 197.756.558 | 131.889.581 | 338.492.136 |
| Retail | 138.905.814 | 16.328.854 | 8.336.309 | 1.915.013 | 165.485.990 |
| Wealth management | 1.646 | - | 459.291 | - | 460.937 |
| **Total** | **643.222.087** | **112.486.922** | **247.332.774** | **155.030.793** | **1.158.072.576** |
| | | | | | |
| **Cyprus** | 496.528.902 | 104.113.535 | 241.626.449 | 154.281.859 | 996.550.745 |
| **Greece** | 38.240.894 | 1.412.318 | 30.794 | - | 39.684.006 |
| **Other countries** | 108.452.291 | 6.961.069 | 5.675.531 | 748.934 | 121.837.825 |
| **Total** | **643.222.087** | **112.486.922** | **247.332.774** | **155.030.793** | **1.158.072.576** |

**40.5 Contingent liabilities and commitments**

The Group enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

An analysis of changes in the outstanding nominal amount of exposures and the corresponding ECLs are disclosed in the tables below:

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### 40.5 Contingent liabilities and commitments (continued)

| **31 December 2020** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **POCI €** | **Total €** |
|---|---|---|---|---|---|
| Outstanding exposure as at 1 January | 44.897.456 | 1.127.411 | 8.755.452 | 2.837.782 | 57.618.101 |
| Transfers to Stage 1 | 43.618 | (3.073) | (40.545) | - | - |
| Transfers to Stage 2 | (8.854.339) | 10.675.194 | (1.820.855) | - | - |
| Transfers to Stage 3 | (2.100.470) | - | 2.100.470 | - | - |
| Net increase | 11.538.181 | 7.820 | (3.265.902) | (630.013) | 7.650.086 |
| **At 31 December 2020** | **45.524.446** | **11.807.352** | **5.728.620** | **2.207.769** | **65.268.187** |

| **31 December 2020** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **POCI €** | **Total €** |
|---|---|---|---|---|---|
| ECLs as at 1 January | 169.567 | 87.905 | 258.617 | 453.234 | 969.323 |
| Transfers to Stage 1 | 4.678 | (19) | (4.659) | - | - |
| Transfers to Stage 2 | (163.678) | 193.142 | (29.464) | - | - |
| Transfers to Stage 3 | (5.038) | - | 5.038 | - | - |
| Change in credit risk | 479.207 | 309.549 | (195.048) | (113.062) | 480.646 |
| **At 31 December 2020** | **484.736** | **590.577** | **34.484** | **340.172** | **1.449.969** |
| | | | | | |
| **Individually assessed** | - | - | 31.639 | 340.097 | 371.736 |
| **Collectively assessed** | 484.736 | 590.577 | 2.845 | 75 | 1.078.233 |
| | **484.736** | **590.577** | **34.484** | **340.172** | **1.449.969** |

| **31 December 2019** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **POCI €** | **Total €** |
|---|---|---|---|---|---|
| Outstanding exposure as at 1 January | 40.920.134 | - | 6.394.099 | - | 47.314.233 |
| Transfers to Stage 1 | 700 | - | (700) | - | - |
| Transfers to Stage 2 | (1.082.996) | 1.083.509 | (513) | - | - |
| Transfers to Stage 3 | (2.825.053) | - | 2.825.053 | - | - |
| Net increase | 7.884.671 | 43.902 | (462.487) | 2.837.782 | 10.303.868 |
| **At 31 December 2019** | **44.897.456** | **1.127.411** | **8.755.452** | **2.837.782** | **57.618.101** |

| **31 December 2019** | **Stage 1 €** | **Stage 2 €** | **Stage 3 €** | **POCI €** | **Total €** |
|---|---|---|---|---|---|
| ECLs as at 1 January | 415.571 | - | 203.822 | - | 619.393 |
| Transfers to Stage 1 | 82 | - | (82) | - | - |
| Transfers to Stage 2 | (257.617) | 257.676 | (59) | - | - |
| Transfers to Stage 3 | (44.844) | - | 44.844 | - | - |
| Change in credit risk | 56.375 | (169.771) | 10.092 | 453.234 | 349.930 |
| **At 31 December 2019** | **169.567** | **87.905** | **258.617** | **453.234** | **969.323** |
| | | | | | |
| **Individually assessed** | - | - | 252.399 | 437.168 | 689.567 |
| **Collectively assessed** | 169.567 | 87.905 | 6.218 | 16.066 | 279.756 |
| | **169.567** | **87.905** | **258.617** | **453.234** | **969.323** |

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### Contingent liabilities and commitments (continued)

The outstanding contingent liabilities by geography are disclosed in the table below:

| 31 December 2020 | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| Cyprus | 40.085.481 | 11.807.352 | 5.726.070 | 1.737.419 | 59.356.322 |
| Other countries | 5.438.965 | - | 2.550 | 470.350 | 5.911.865 |
| Total | **45.524.446** | **11.807.352** | **5.728.620** | **2.207.769** | **65.268.187** |

| 31 December 2019 | Stage 1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| Cyprus | 40.786.181 | 1.127.411 | 8.754.902 | 2.367.432 | 53.035.926 |
| Other countries | 4.111.275 | - | 550 | 470.350 | 4.582.175 |
| **Total** | **44.897.456** | **1.127.411** | **8.755.452** | **2.837.782** | **57.618.101** |

### Expected credit loss measurement

The table below discloses the gross carrying amounts of the financial assets and nominal amounts of the off balance sheet instruments by staging before ECL:

### 31 December 2020

| | Stage1 € | Stage 2 € | Stage 3 € | POCI € | Total € |
|---|---|---|---|---|---|
| Balances with Central Banks | 573.913.279 | - | - | - | 573.913.279 |
| Placements with other Banks | 55.917.014 | - | - | - | 55.917.014 |
| Debt securities | 860.185.930 | - | - | - | 860.185.930 |
| Loans and advances to customers | 743.942.809 | 144.063.925 | 233.653.829 | 161.292.138 | 1.282.952.701 |
| Other assets | 13.666.044 | - | - | - | 13.666.044 |
| **Total financial assets in scope of ECL requirements** | **2.247.625.076** | **144.063.925** | **233.653.829** | **161.292.138** | **2.786.634.968** |
| | | | | | |
| Credit guarantees | 871.427 | - | 37.700 | - | 909.127 |
| Letters of guarantee | 44.653.019 | 11.807.352 | 5.690.920 | 2.207.769 | 64.359.060 |
| Unutilised limits | 141.341.839 | 9.490.896 | 1.086.302 | 268.218 | 152.187.255 |
| **Total off-balance sheet instruments in scope of ECL requirements** | **186.866.285** | **21.298.248** | **6.814.922** | **2.475.987** | **217.455.442** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

**Expected credit loss measurement (continued)**

**31 December 2019**

| | **Stage1 €** | **Stage 2 €** | **Stage 3 €** | **POCI €** | **Total €** |
|---|---|---|---|---|---|
| Balances with Central Banks | 224.345.059 | - | - | - | 224.345.059 |
| Placements with other Banks | 90.740.356 | - | - | - | 90.740.356 |
| Debt securities | 700.178.089 | - | - | - | 700.178.089 |
| Loans and advances to customers | 643.222.087 | 112.486.922 | 247.332.774 | 155.030.793 | 1.158.072.576 |
| Other assets | 8.051.758 | - | - | - | 8.051.758 |
| **Total financial assets in scope of ECL requirements** | **1.666.537.349** | **112.486.922** | **247.332.774** | **155.030.793** | **2.181.387.838** |
| | | | | | |
| Credit guarantees | 3.489.253 | - | - | - | 3.489.253 |
| Letters of guarantee | 41.408.203 | 1.127.411 | 8.755.452 | 2.837.782 | 54.128.848 |
| Unutilised limits | 109.048.585 | 1.155.049 | 2.680.529 | 335.389 | 113.219.552 |
| **Total off-balance sheet instruments in scope of ECL requirements** | **153.946.041** | **2.282.460** | **11.435.981** | **3.173.171** | **170.837.653** |

The table below discloses the ECL allowance of the financial assets and off balance sheet instruments by Staging:

**31 December 2020**

| | **Stage1 €** | **Stage 2 €** | **Stage 3 €** | **POCI €** | **Total €** |
|---|---|---|---|---|---|
| Balances with Central Banks | - | - | - | - | - |
| Placements with other Banks | - | - | - | - | - |
| Debt securities | 1.290.209 | - | - | - | 1.290.209 |
| Loans and advances to customers | 7.121.875 | 4.795.629 | 139.010.079 | 31.631.633 | 182.559.216 |
| Other assets | 394.354 | - | - | - | 394.354 |
| **Total financial assets in scope of ECL requirements** | **8.806.438** | **4.795.629** | **139.010.079** | **31.631.633** | **184.243.779** |
| | | | | | |
| Credit guarantees | 1.290 | - | - | - | 1.290 |
| Letters of guarantee | 483.446 | 590.577 | 34.484 | 340.172 | 1.448.679 |
| **Total off-balance sheet instruments in scope of ECL requirements** | **484.736** | **590.577** | **34.484** | **340.172** | **1.449.969** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

**Expected credit loss measurement (continued)**

**31 December 2019**

| | Stage1<br>€ | Stage 2<br>€ | Stage 3<br>€ | POCI<br>€ | Total<br>€ |
|---|---|---|---|---|---|
| Balances with Central Banks | - | - | - | - | - |
| Placements with other Banks | 238.130 | - | - | - | 238.130 |
| Debt securities | 1.645.327 | - | - | - | 1.645.327 |
| Loans and advances to customers | 4.503.506 | 2.235.618 | 129.221.697 | 24.221.098 | 160.181.919 |
| Other assets | - | - | - | - | - |
| **Total financial assets in scope of ECL requirements** | **6.386.963** | **2.235.618** | **129.221.697** | **24.221.098** | **162.065.376** |
| | | | | | |
| Credit guarantees | 1.505 | - | - | - | 1.505 |
| Letters of guarantee | 168.062 | 87.905 | 258.617 | 453.234 | 967.818 |
| **Total off-balance sheet instruments in scope of ECL requirements** | **169.567** | **87.905** | **258.617** | **453.234** | **969.323** |

ECL allowance on unutilised limits is included in ECL allowance of loans and advances to customers.

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

**Geographical analysis**

The following table presents the carrying amount of the Group's financial assets which are subject to credit risk by geographical sector. For the purposes of this table, the distribution of the exposure on financial assets in the geographical sectors has been performed based on the relevant counterparties' country of operation.

| | Cyprus | Greece | Other countries | Total |
|---|---|---|---|---|
| | € | € | € | € |
| **31 December 2020** | | | | |
| **Credit risk exposure from on balance sheet assets:** | | | | |
| Balances with Central Banks | 573.913.279 | - | - | 573.913.279 |
| Placements with other banks | - | 110.539 | 55.568.345 | 55.678.884 |
| Loans and advances to customers | 898.471.467 | 71.439.985 | 130.482.033 | 1.100.393.485 |
| Debt securities | 482.987.690 | 189.369.257 | 186.538.774 | 858.895.721 |
| Financial assets at FVTPL | 3.609.085 | - | 7.833.023 | 11.442.108 |
| Derivative financial instruments | 2.311 | - | 108.313 | 110.624 |
| Other assets | 7.798.316 | - | 5.867.728 | 13.666.044 |
| **Total on balance sheet assets** | **1.966.782.148** | **260.919.781** | **386.398.216** | **2.614.100.145** |
| | | | | |
| **Credit risk exposure from off balance sheet assets**: | | | | |
| Credit guarantees | 909.127 | - | - | 909.127 |
| Letters of guarantee | 58.450.105 | 4.772.905 | 1.136.050 | 64.359.060 |
| Unutilised credit limits | 145.838.440 | 5.211.831 | 1.136.984 | 152.187.255 |
| **Total off balance sheet assets** | **205.197.672** | **9.984.736** | **2.273.034** | **217.455.442** |
| | | | | |
| **Total on and off balance sheet assets as at 31 December** | **2.171.979.820** | **270.904.517** | **388.671.250** | **2.831.555.587** |

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

**Geographical analysis (continued)**

| | Cyprus | Greece | Other countries | Total |
|---|---|---|---|---|
| | € | € | € | € |
| **31 December 2019** | | | | |
| **Credit risk exposure from on balance sheet assets:** | | | | |
| Balances with Central Banks | 224.345.059 | - | - | 224.345.059 |
| Placements with other banks | - | 59.236.606 | 31.265.620 | 90.502.226 |
| Loans and advances to customers | 838.969.207 | 39.556.574 | 119.364.876 | 997.890.657 |
| Debt securities | 304.579.094 | 195.798.422 | 198.155.246 | 698.532.762 |
| Financial assets at FVTPL | 2.570.694 | 3.647.341 | 16.950.114 | 23.168.149 |
| Derivative financial instruments | 120.580 | 52.962 | 51.571 | 225.113 |
| Other assets | 8.051.758 | - | - | 8.051.758 |
| **Total on balance sheet assets** | **1.378.636.392** | **298.291.905** | **365.787.427** | **2.042.715.724** |
| | | | | |
| **Credit risk exposure from off balance sheet assets**: | | | | |
| Credit guarantees | 3.481.444 | - | 7.809 | 3.489.253 |
| Letters of guarantee | 49.554.483 | 3.552.572 | 1.021.793 | 54.128.848 |
| Unutilised credit limits | 106.120.540 | 4.178.803 | 2.920.209 | 113.219.552 |
| **Total off balance sheet assets** | **159.156.467** | **7.731.375** | **3.949.811** | **170.837.653** |
| | | | | |
| **Total on and off balance sheet assets as at 31 December 2019** | **1.537.792.859** | **306.023.280** | **369.737.238** | **2.213.553.377** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

**Business sector analysis**

The table below presents the carrying amount of the Group's financial assets that are subject to credit risk based on the business sector in which the counterparty operates.

| | Industrial € | Tourism € | Commerce € | Real estate and Construction € | Financial Institutions € | Governments € | Other sectors € | Total € |
|---|---|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | | | |
| Balances with Central Banks | - | - | - | - | 573.913.279 | - | - | 573.913.279 |
| Placements with other banks | - | - | - | - | 55.678.884 | - | - | 55.678.884 |
| **Advances:** | | | | | | | | |
| Advances to retail | 158.929 | 425.721 | 577.250 | 681.260 | 1.218 | - | 261.376.891 | 263.221.269 |
| Large entities & organisations | 23.497.766 | 11.881.894 | 28.932.481 | 30.930.883 | 28.008.954 | - | 101.955.762 | 225.207.740 |
| Small and medium size enterprises | 22.916.334 | 96.121.064 | 68.505.465 | 228.049.950 | 33.932.913 | 4.146.946 | 158.291.804 | 611.964.476 |
| Debt securities | - | - | - | - | 64.320.529 | 794.575.192 | - | 858.895.721 |
| Financial assets at fair value through profit or loss | - | - | - | - | 1.881.399 | 1.727.685 | 7.833.024 | 11.442.108 |
| Derivative financial instruments | - | - | - | - | 110.624 | - | - | 110.624 |
| Other assets | - | - | - | - | - | - | 13.666.044 | 13.666.044 |
| | **46.573.029** | **108.428.679** | **98.015.196** | **259.662.093** | **757.847.800** | **800.449.823** | **543.123.525** | **2.614.100.145** |
| **Credit Risk exposure from off balance sheet assets:** | | | | | | | | |
| Credit guarantees | - | - | 779.087 | 130.040 | - | - | - | 909.127 |
| Letters of guarantee | 4.504.510 | 39.700 | 14.664.284 | 34.257.586 | 1.773.007 | 621.610 | 8.498.363 | 64.359.060 |
| Unutilised credit limits | 20.241.055 | 12.591.660 | 35.750.103 | 22.993.469 | 4.707.304 | 13.140.538 | 42.763.126 | 152.187.255 |
| | **24.745.565** | **12.631.360** | **51.193.474** | **57.381.095** | **6.480.311** | **13.762.148** | **51.261.489** | **217.455.442** |
| | | | | | | | | |
| **Total on and off balance sheet assets 31 December** | **71.318.594** | **121.060.039** | **149.208.670** | **317.043.188** | **764.328.111** | **814.211.971** | **594.385.014** | **2.831.555.587** |

### 40. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

**Business sector analysis (continued)**

| | Industrial € | Tourism € | Commerce € | Real estate and Construction € | Financial Institutions € | Governments € | Other sectors € | Total € |
|---|---|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | | | |
| Balances with Central Banks | - | - | - | - | 224.345.059 | - | - | 224.345.059 |
| Placements with other banks | - | - | - | - | 90.502.226 | - | - | 90.502.226 |
| **Advances:** | | | | | | | | |
| Advances to retail | 129.583 | 400.471 | 566.078 | 646.759 | 3.762 | - | 234.761.381 | 236.508.034 |
| Large entities & organisations | 15.305.619 | 17.680.535 | 32.022.311 | 12.989.452 | 12.278.101 | - | 78.494.723 | 168.770.741 |
| Small and medium size enterprises | 24.364.692 | 69.942.657 | 70.257.472 | 238.052.522 | 58.505.090 | 3.256.147 | 128.233.302 | 592.611.882 |
| Debt securities | - | - | - | - | 66.230.591 | 632.302.171 | - | 698.532.762 |
| Financial assets at fair value through profit or loss | - | - | - | - | 13.943.672 | 309.436 | 8.915.041 | 23.168.149 |
| Derivative financial instruments | - | - | - | - | 225.113 | - | - | 225.113 |
| Other assets | - | - | - | - | - | - | 8.051.758 | 8.051.758 |
| | 39.799.894 | 88.023.663 | 102.845.861 | 251.688.733 | 466.033.614 | 635.867.754 | 458.456.205 | 2.042.715.724 |
| **Credit Risk exposure from off balance sheet assets:** | | | | | | | | |
| Credit guarantees | - | - | 3.489.253 | | - | - | - | 3.489.253 |
| Letters of guarantee | 951.717 | 122.384 | 1.505.359 | 13.354.373 | 2.106.096 | 8.543 | 36.080.376 | 54.128.848 |
| Unutilised credit limits | 3.675.652 | 260.950 | 6.977.949 | 27.353.024 | 7.955.619 | 368.386 | 66.627.972 | 113.219.552 |
| | 4.627.369 | 383.334 | 11.972.561 | 40.707.397 | 10.061.715 | 376.929 | 102.708.348 | 170.837.653 |
| | | | | | | | | |
| **Total on and off balance sheet assets 31 December** | **44.427.263** | **88.406.997** | **114.818.422** | **292.396.130** | **476.095.329** | **636.244.683** | **561.164.552** | **2.213.553.377** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Credit risk (continued)**

**Contractual and Non-contractual write-offs**

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such case, financial assets are written off either partially or in full. Write off refers to both contractual and non-contractual write offs. A non-contractual write-off is defined as the accounting reduction of a debt, without waiving the legal claim against the debtor.

The contractual and non-contractual write-offs of loans and advances during the year are €19,8m (2019: €54,6m). The equivalent write-off amount excluding the residual fair value adjustment on initial recognition is €8,8m (2019:€33,4m).

**Risk of counterparty banks**

The Bank runs the risk of loss of capital due to the possibility that a counterparty bank will delay or default on its payments on any existing or contingent liabilities. Through its daily operations, the Bank enters into transactions with other Banks and financial institutions. By entering into these transactions the Bank runs the risk of incurring losses in the event of late repayments or default of existing and contingent liabilities of the counterparty banks.

The limits set for counterparty banks reflect the level of risk that is considered acceptable and are then distributed to the Treasury Department or to any other service department where this kind of risk exists, based on the needs and volume of transactions within each service department. Generally, the limits are determined by banking sector evaluation models, as well as by the requirements of the supervisory authorities. The credit limit set for each counterparty is divided into sub-limits covering placements, investments, foreign exchange trading as well as the daily clearing limit. Actual positions are monitored against the limits on a daily basis and in real time.

**Country risk**

The Bank runs the risk of losing capital due to possible political, economic and other events in a particular country where the Bank's capital or liquid funds have been placed or invested in local banks and financial institutions. All countries are evaluated based on their size, economic data and country prospects and credit-worthiness rates provided by international credit rating agencies (Fitch, Moody's and Standard & Poor's). Actual country positions are monitored against their limits on a regular basis. Review of the limits is performed at least once a year with smaller countries with a lower degree of credit-worthiness going through a more extended and more frequent analysis and evaluation, where appropriate.

**Credit risk concentration**

There are restrictions to the concentration of credit risk as per the Cyprus Banking Law and the relevant Capital Requirements Regulation (CRR) issued by the European Union. According to these restrictions, exposures to customers or group of connected customers, other than institutions, shall not exceed 25% of a bank's own funds, after taking into account the effect of credit risk mitigation in accordance with articles 399-403 of CRR. Exposures to institutions shall not exceed 25% of a bank's capital base or €150m whichever is higher. Where the amount of €150m is higher than 25% of a Bank's own funds, after taking into account the effect of credit risk mitigation techniques, the limit shall not exceed 100% of a bank's own funds. As at and during the year ended 31 December 2020 there were no violations of the CRR Large Exposure Limits.

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### Credit risk concentration (continued)

During the year ended 31 December 2020 the Bank exceeded the maximum legal lending limit to a major shareholder under the Cyprus Banking Law primarily due to a credit enhancement provided, in the form of a guarantee, by Piraeus Bank S.A. as part of the transaction between Piraeus Bank S.A. (PBSA) and Holding M. Sehnaoui SAL. The Central Bank of Cyprus was notified accordingly and did not request any remedial action from the Bank. The violation was regularised on 4 December 2020 when the shareholding of PBSA decreased to below <10% and the company no longer constitutes a major shareholder of the Bank.

### Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, exchange rates, property and security prices. The Market risk (including Interest Rate Risk in the Banking Book) is managed by the Bank's Treasury that operates within the approved limits. The Risk Management Unit (RMU) monitors the risk resulting from such changes which are governed by the Market Risk Policy, the Market Risk Limits Management Procedure and Interest Rate Risk Methodology to ensure compliance with the regulatory and approved limits. The RMU also monitors liquidity risk and credit risk with counterparties and countries.

### Interest rate risk

Interest rate risk is the risk that the value of financial instruments and net interest income will decrease due to adverse movements in market interest rates. Interest rate risk arises due to timing differences in the re-pricing of interest rates or the maturity of assets and liabilities. Interest rate risk arises mainly from interest bearing banking activities and the Bank's loan portfolio.

With regards to balance sheet items in the Group's portfolio as at 31 December 2020 a parallel increase in market interest rates across all currencies by 200 basis points would result in an increase in profit before tax by €9,1m (2019: €7,2m). A parallel decrease in market interest rates by 200 basis points would result in an decrease in profit before tax by €9,1m (2019: €7,2m).

The following table summarises the Group's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts categorised by interest rate re-pricing date for floating rate items or maturity date for fixed rate items. The table also presents the net interest rate risk position.

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Interest rate risk (continued)**

**31 December 2020**

| | Up to 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | Over 5 years | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| **Assets** | | | | | | | |
| Balances with Central Banks | 573.913.279 | - | - | - | - | 17.866.473 | 591.779.752 |
| Placements with other Banks | 55.678.884 | - | - | - | - | - | 55.678.884 |
| Loans and advances to customers | 594.628.474 | 263.335.038 | 231.809.549 | 1.460.754 | 9.159.670 | - | 1.100.393.485 |
| Debt securities | 81.023.452 | 104.099.624 | 265.535.436 | 303.759.572 | 104.477.637 | - | 858.895.721 |
| Financial assets at fair value through profit or loss | 3.609.086 | - | - | 7.833.023 | - | 578.231 | 12.020.340 |
| Derivative financial instruments | - | - | - | - | - | 110.624 | 110.624 |
| Other assets | - | - | - | - | - | 15.071.110 | 15.071.110 |
| | **1.308.853.175** | **367.434.662** | **497.344.985** | **313.053.349** | **113.637.307** | **33.626.438** | **2.633.949.916** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other banks | 19.615.859 | - | 12.838.816 | - | 8.471.560 | - | 40.926.235 |
| Funding from Central Banks | - | - | 99.845.891 | 299.222.859 | - | - | 399.068.750 |
| Customer deposits | 1.689.600.763 | 87.998.460 | 328.131.663 | - | - | - | 2.105.730.886 |
| Derivative financial instruments | - | - | - | - | 517.931 | 152.395 | 670.326 |
| Other liabilities | - | - | - | - | - | 81.976.023 | 81.976.023 |
| Subordinated bond | - | - | - | - | 16.121.386 | - | 16.121.386 |
| **Total** | **1.709.216.622** | **87.998.460** | **440.816.370** | **299.222.859** | **25.110.877** | **82.128.418** | **2.644.493.606** |
| | | | | | | | |
| **Net balance sheet position** | (400.363.447) | 279.436.202 | 56.528.615 | 13.830.490 | 88.526.430 | | |

**40. MANAGEMENT OF FINANCIAL RISKS**

**Interest rate risk (continued)**

**31 December 2019**

| | Up to 1 month<br>€ | Between 1 and 3 months<br>€ | Between 3 months and 1 year<br>€ | Between 1 and 5 years<br>€ | Over 5 years<br>€ | Non-interest bearing items<br>€ | Total<br>€ |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Balances with Central Banks | 224.345.059 | - | - | - | - | 17.480.230 | 241.825.289 |
| Placements with other Banks | 90.502.226 | - | - | - | - | - | 90.502.226 |
| Loans and advances to customers | 520.132.804 | 364.354.445 | 95.089.035 | 6.825.819 | 11.488.554 | - | 997.890.657 |
| Debt securities | 144.199.999 | 119.443.835 | 98.176.197 | 286.646.048 | 50.066.683 | - | 698.532.762 |
| Financial assets at fair value through profit or loss | 6.218.036 | 8.035.074 | - | 8.915.040 | - | 7.830.876 | 30.999.026 |
| Derivative financial instruments | - | - | - | - | - | 225.113 | 225.113 |
| Other assets | - | - | - | - | - | 9.428.048 | 9.428.048 |
| | **985.398.124** | **491.833.354** | **193.265.232** | **302.386.907** | **61.555.237** | **34.964.267** | **2.069.403.121** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other banks | 9.795.478 | - | - | - | 8.125.748 | - | 17.921.226 |
| Customer deposits | 1.459.650.788 | 197.097.399 | 350.676.898 | - | - | - | 2.007.425.085 |
| Derivative financial instruments | - | - | - | - | - | 156.006 | 156.006 |
| Other liabilities | - | - | - | - | - | 56.924.524 | 56.924.524 |
| **Total** | **1.469.446.266** | **197.097.399** | **350.676.898** | **-** | **8.125.748** | **57.080.530** | **2.082.426.841** |
| | | | | | | | |
| **Net balance sheet position** | (484.048.143) | 320.232.310 | (182.908.021) | 302.386.907 | 53.429.489 | | |

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

***Currency risk***

Currency risk is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates. Currency risk arises from a positive or negative open position in a foreign currency, exposing the Group to changes in the relevant exchange rate. This risk may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or from derivatives.

The Bank enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Bank's Treasury department also enters into spot foreign exchange transactions within predefined and approved limits, as well as transactions in derivatives such as foreign exchange forward contracts and foreign exchange swaps.

The following risk exposure calculation methods and associated limit structures are used for monitoring:

a. Open position by currency – net positive or negative position in each currency.
b. Total net positive or negative position.

The approved limits are systematically monitored and reviewed and are assessed at least annually. These limits may be modified, according to the strategy of the Bank and the prevailing market conditions.

| Currency | Change in exchange rate | 2020 Impact on consolidated income statement €000 | 2019 Impact on consolidated income statement €000 |
|---|---|---|---|
| United States Dollar | +10% (-10%) | 36(-36) | +205 (-205) |
| Pound sterling | +10% (-10%) | -3 (+3) | +4 (-4) |
| Swiss Franc | +10% (-10%) | -153 (+153) | -152 (+152) |
| Other currencies | +10% (-10%) | -68 (+68) | -63 (+63) |

The following table summarises the Group's exposure to currency risk. In the table the carrying values of the Group's assets and liabilities are presented, categorized by currency. The table also presents the notional amount of derivative financial instruments, categorized by currency.

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Currency risk (continued)

| 2020 | Euro<br>€ | US Dollar<br>€ | Pound sterling<br>€ | Swiss Franc<br>€ | Other currencies<br>€ | Total<br>€ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Balances with Central Banks | 591.199.829 | 344.118 | 221.892 | 11.855 | 2.058 | 591.779.752 |
| Placements with other banks | 10.821.425 | 41.030.390 | 856.039 | 308.287 | 2.662.743 | 55.678.884 |
| Loans and advances to customers | 937.563.512 | 120.148.049 | 32.905.679 | 9.156.693 | 619.552 | 1.100.393.485 |
| Debt securities | 738.773.963 | 120.121.758 | - | - | - | 858.895.721 |
| Financial assets at fair value through other comprehensive income | 6.171.883 | - | - | - | - | 6.171.883 |
| Financial assets at fair value through profit or loss | 3.609.085 | 8.411.255 | - | - | - | 12.020.340 |
| Derivative financial instruments | 5.605 | 16.148 | 21.944 | 3.667 | 63.260 | 110.624 |
| Other assets | 8.129.160 | 1.009.400 | 78.367 | 1.141.321 | (302.640) | 10.055.608 |
| **Total assets** | **2.296.274.462** | **291.081.118** | **34.083.921** | **10.621.823** | **3.044.973** | **2.635.106.297** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Due to other banks | 19.174.788 | 20.254.347 | 108.794 | - | 1.388.306 | 40.926.235 |
| Funding from Central Banks | 399.068.750 | - | - | - | - | 399.068.750 |
| Customer deposits | 1.701.814.788 | 356.211.427 | 37.359.932 | 1.201.270 | 9.143.469 | 2.105.730.886 |
| Derivative financial instruments | 521.584 | 12.953 | 46.942 | 78.938 | 9.909 | 670.326 |
| Other liabilities | 73.944.475 | 7.473.453 | 489.186 | 7.340 | 61.569 | 81.976.023 |
| Subordinated bond | 16.121.386 | - | - | - | - | 16.121.386 |
| **Total liabilities** | **2.210.645.771** | **383.952.180** | **38.004.854** | **1.287.548** | **10.603.253** | **2.644.493.606** |
| | | | | | | |
| **Equity** | **186.728.895** | **-** | **-** | **-** | **-** | **186.728.895** |
| | | | | | | |
| **Total equity and liabilities** | **2.397.374.666** | **383.952.180** | **38.004.854** | **1.287.548** | **10.603.253** | **2.831.222.501** |
| **Net balance sheet position** | **(101.100.204)** | **(92.871.062)** | **(3.920.933)** | **9.334.275** | **(7.558.280)** | **(196.116.204)** |
| **Net notional amount of derivative financial instruments** | **(93.145.786)** | **93.231.203** | **3.895.381** | **(10.863.402)** | **6.882.604** | **-** |
| **Net foreign exchange position** | **(194.245.990)** | **360.141** | **(25.552)** | **(1.529.127)** | **(675.676)** | **(196.116.204)** |

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Currency risk (continued)

| 2019 | Euro<br>€ | US Dollar<br>€ | Pound sterling<br>€ | Swiss Franc<br>€ | Other currencies<br>€ | Total<br>€ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Balances with Central Banks | 241.315.328 | 351.815 | 145.557 | 4.867 | 7.722 | 241.825.289 |
| Placements with other banks | 71.539.326 | 4.078.957 | 2.948.242 | 569.898 | 11.365.803 | 90.502.226 |
| Loans and advances to customers | 855.748.598 | 95.730.806 | 35.460.188 | 10.230.488 | 720.577 | 997.890.657 |
| Debt securities | 577.052.351 | 121.480.411 | - | - | - | 698.532.762 |
| Financial assets at fair value through other comprehensive income | 6.227.087 | - | - | - | - | 6.227.087 |
| Financial assets at fair value through profit or loss | 20.092.540 | 10.906.486 | - | - | - | 30.999.026 |
| Derivative financial instruments | 119.780 | 53.843 | 43.955 | - | 7.535 | 225.113 |
| Other assets | 2.662.689 | 1.636.087 | (6.713) | 148.123 | (374.847) | 4.065.339 |
| **Total assets** | **1.774.757.699** | **234.238.405** | **38.591.229** | **10.953.376** | **11.726.790** | **2.070.267.499** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Due to other banks | 17.918.995 | 2.231 | - | - | - | 17.921.226 |
| Customer deposits | 1.668.947.315 | 294.359.070 | 31.407.133 | 1.147.780 | 11.563.787 | 2.007.425.085 |
| Derivative financial instruments | 510 | 23.288 | 4.442 | 127.766 | - | 156.006 |
| Other liabilities | 53.026.471 | 3.188.484 | 617.529 | 8.202 | 83.838 | 56.924.524 |
| **Total liabilities** | **1.739.893.291** | **297.573.073** | **32.029.104** | **1.283.748** | **11.647.625** | **2.082.426.841** |
| | | | | | | |
| **Equity** | **182.366.306** | **-** | **-** | **-** | **-** | **182.366.306** |
| | | | | | | |
| **Total equity and liabilities** | **1.922.259.597** | **297.573.073** | **32.029.104** | **1.283.748** | **11.647.625** | **2.264.793.147** |
| | | | | | | |
| **Net balance sheet position** | **(147.501.898)** | **(63.334.668)** | **6.562.125** | **9.669.628** | **79.165** | **(194.525.648)** |
| | | | | | | |
| **Net notional amount of derivative financial instruments** | **(46.958.498)** | **65.381.843** | **(6.523.509)** | **(11.186.059)** | **(713.777)** | **-** |
| **Net foreign exchange position** | **(194.460.396)** | **2.047.175** | **38.616** | **(1.516.431)** | **(634.612)** | **(194.525.648)** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Risk from changes in the prices of equities and securities**

The risk in relation to the prices of equity securities that are held by the Group arises from possible adverse changes in market prices of equity securities. The Group invests in listed and non-listed equity shares which, depending on the purpose of the investment, are classified in the appropriate portfolio. Currently investments in equity securities, are classified at FVTOCI and FVTPL. Cyprus government bonds and other corporate bonds listed in an active market which are held for trading, are also classified at FVTPL.

**Liquidity risk**

Liquidity risk is the risk that the Bank cannot find sufficient liquid funds in order to meet its immediate liabilities, without incurring significant economic costs. This risk is monitored and controlled by the Treasury Department, the Finance Division and the Risk Management Unit, in order to ensure, to the extent possible, that there is adequate liquidity to meet its obligations under normal and stress conditions.

*Liquidity ratios*
The Bank must comply with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements Regulation (EU) No 575/2013 (CRR) of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions). The objective of LCR is to promote the short-term resilience of the liquidity risk profile of banks. The regulatory limit for LCR stands at 100%. As at 31 December 2020 the Bank's liquidity coverage ratio stood at 246,0% (31 December 2019: 324,0%).

The Net Stable Funding Ratio (NSFR) which is a long-term liquidity measure, has not yet been introduced but it will become a regulatory indicator when CRR2 is enforced with the limit set at 100%. At 31 December 2020, the Group's NSFR, stood at 127,6% (compared to 165,6% at 31 December 2019). The NSFR's objective is to avoid excessive maturity mismatch between assets and liabilities and dependence on short-term funding and covers a one-year horizon.

Additionally, the monitoring and management of liquidity risk is achieved through the use and monitoring of the following:

The concentration, diversity and maturity profile of customer deposits

a. Adopting pricing policies that contribute to establishing a stable depository base
b. Maintaining a balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities
c. Monitoring Liquidity Monitoring Metrics (ALMM) under Article 415(3)(b) of Regulation (EU) No 575/2013.

*Main sources of funding*
As at 31 December 2020 the Company's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

At 31 December 2020, the Group's funding from central banks amounted to €400 million, which relates to ECB funding, comprising funding through the Pandemic Emergency Longer Term Refinancing Operations (PELTRO) of €100 million and the Targeted Longer-Term Refinancing Operations (TLTRO) of €300 million (no funding from central banks as at 31 December 2019).

*Collateral requirements and other disclosures*

| **The carrying values of the Group's encumbered assets as at 31 December 2020:** | **€** |
|---|---|
| Debt securities at amortised cost | 425.735.575 |

*Cash flows from non-derivative financial instruments*

The following liquidity risk table analyses the financial assets and liabilities of the Group into respective time bands based on the remaining period from the reporting date to the contractual maturity date. Loans with expired maturity dates are included in "up to one month" column in the table below.

## 40. MANAGEMENT OF FINANCIAL RISKS (continued)

### Liquidity risk (continued)

The table below presents the contractual undiscounted cash flows. Balances maturing within one year are assumed to be equal to their carrying values since the discounting effect is not considered significant.

| | Up to 1 month<br>€ | Up to 3 months<br>€ | Between 3 months and 1 year<br>€ | Between 1 and 5 years<br>€ | More than 5 years<br>€ | Total<br>€ |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Financial assets** | | | | | | |
| Balances with Central Banks | 591.779.752 | - | - | - | - | 591.779.752 |
| Placements with other banks | 55.678.884 | - | - | - | - | 55.678.884 |
| Derivative financial instruments | 110.624 | - | - | - | - | 110.624 |
| Financial assets at fair value through profit or loss | 4.187.317 | - | - | 7.833.023 | - | 12.020.340 |
| Financial assets at fair value through other comprehensive income | 6.171.883 | - | - | - | - | 6.171.883 |
| Loans and advances to customers | 2.924.811 | 7.066.146 | 275.752.543 | 218.149.984 | 780.833.294 | 1.284.726.778 |
| Debt securities | 81.023.452 | 104.099.624 | 265.535.436 | 303.759.572 | 104.477.637 | 858.895.721 |
| Other assets | 15.071.110 | - | - | - | - | 15.071.110 |
| | **756.947.833** | **111.165.770** | **541.287.979** | **529.742.579** | **885.310.931** | **2.824.455.092** |
| **Financial liabilities** | | | | | | |
| Due to other banks | 19.615.859 | - | 12.838.816 | - | 8.471.560 | 40.926.235 |
| Funding from Central Banks | - | - | 99.845.891 | 299.222.859 | - | 399.068.750 |
| Customer deposits | 1.688.898.767 | 130.753.634 | 286.358.223 | - | - | 2.106.010.624 |
| Derivative financial instruments | 152.395 | - | - | 517.931 | - | 670.326 |
| Other liabilities | 81.976.023 | - | - | - | - | 81.976.023 |
| Subordinated bond | - | - | - | - | 16.121.386 | 16.121.386 |
| | **1.790.643.044** | **130.753.634** | **399.042.930** | **299.740.790** | **24.592.946** | **2.644.773.344** |
| | | | | | | |
| **Net liquidity position** | **(1.033.695.211)** | **(19.587.864)** | **142.245.049** | **230.001.789** | **860.717.985** | **179.681.748** |

**40. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Liquidity risk (continued)**

| | **Up to 1 month €** | **Up to 3 months €** | **Between 3 months and 1 year €** | **Between 1 and 5 years €** | **More than 5 years €** | **Total €** |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Financial assets** | | | | | | |
| Balances with Central Banks | 241.825.289 | - | - | - | - | 241.825.289 |
| Placements with other banks | 90.502.226 | - | - | - | - | 90.502.226 |
| Derivative financial instruments | 225.113 | - | - | - | - | 225.113 |
| Financial assets at fair value through profit or loss | 14.048.912 | 8.035.074 | - | 8.915.040 | - | 30.999.026 |
| Financial assets at fair value through other comprehensive income | 6.227.087 | - | - | - | - | 6.227.087 |
| Loans and advances to customers | 3.222.761 | 6.730.404 | 268.696.157 | 218.826.211 | 957.289.677 | 1.454.765.210 |
| Debt securities | 144.199.999 | 119.443.835 | 98.176.197 | 286.646.048 | 50.066.683 | 698.532.762 |
| Other assets | 9.428.048 | - | - | - | - | 9.428.048 |
| | **509.679.435** | **134.209.313** | **366.872.354** | **514.387.299** | **1.007.356.360** | **2.532.504.761** |
| **Financial liabilities** | | | | | | |
| Due to other banks | 9.795.478 | - | - | - | 8.125.748 | 17.921.226 |
| Customer deposits | 1.459.685.060 | 196.561.435 | 351.899.934 | - | - | 2.008.146.429 |
| Derivative financial instruments | 156.006 | - | - | - | - | 156.006 |
| Other liabilities | 56.924.524 | - | - | - | - | 56.924.524 |
| | **1.526.561.068** | **196.561.435** | **351.899.934** | **-** | **8.125.748** | **2.083.148.185** |
| | | | | | | |
| **Net liquidity position** | **(1.016.881.633)** | **(62.352.122)** | **(10.523.935)** | **514.387.299** | **999.230.612** | **449.356.576** |

*Cash flows from derivative financial instruments that are settled on a net basis*

Cash flows from derivative financial instruments are settled on a net basis in the respective period, based on the remaining period from the balance sheet date to their maturity. The maturity of all the derivative financial instruments is less than twelve months.

Information on the fair and theoretical values of derivatives is presented in Note 18.

## 41. CAPITAL MANAGEMENT

The main objective of the Group's capital management function is to ensure compliance with the relevant supervisory capital requirements and to maintain healthy capital adequacy ratios which can support the Company's growth and safeguard the interests of its shareholders and all other stakeholders. The Central Bank of Cyprus (CBC), as part of its supervisory role, has adopted the recommendations of the Basel Committee and the European Directives on banking supervisory matters.

The Basel III Framework known as Capital Requirement Regulation ("CRR") No 575/2013 Capital Requirement Directive IV ("CRD IV") establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.

The European Parliament and Council on 12 December 2017 issued the Regulation (EU) 2017/2395 which amends Regulation (EU) No 575/2013, regarding the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. According to the Regulation, institutions are allowed to exclude from their CET 1 capital and leverage ratios a portion of the increased expected credit loss provisions from the introduction of IFRS 9 for a transitional period of five years.

Moreover, in June 2020 Regulation (EU) 2020/873 came into force which provides for certain supervisory reliefs in response to the COVID-19 pandemic, bringing forward some of the capital relieving measures that were due to come into force at a later stage. The main adjustments affecting the Group's own funds as at 31 December 2020 relate to the acceleration of the implementation of the new SME discount factor under CRR II introduced in June 2020 instead of June 2021 (which results to lower RWAs), extending the IFRS 9 transitional arrangements allowing the banks to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets.

Basel III Framework comprises of three Pillars:
- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory Review and Evaluation Process
- Pillar 3 – Market discipline

<u>Pillar 1 – Minimum capital requirements</u>
Pillar 1 sets forth the guidelines for calculating the minimum capital requirements based on generic rules to cover the credit risk, the market risk and the operational risk to determine a bank's risk-weighted assets (RWA). Pillar I also stipulates the minimum capital requirement for banks. The requirement is 8% of RWA. But under Pillar II, the regulatory authorities can require that banks have more capital than the minimum requirement.

The Group has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighted using specific weights, depending on the class the exposures belong to and their credit rating. According to the directive, there are two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Group has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Group's collaterals.

Regarding market risk, the Group has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models. In addition, there is a capital requirement for specific risk on debt instruments in the trading book. The requirement for specific risk on debt instruments is based on issuer type, maturity and credit quality

The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a 15% as defined in CRR on the average sum of total net income on a three year basis net of non-interest income after certain qualification adjustments.

<u>Pillar 2 – Supervisory Review and Evaluation Process ("SREP")</u>
Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures of the Group and requires appropriate risk management, reporting and governance policies. SREP is a holistic assessment of, amongst other things: the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of SREP is for the CBC to form an up-to-date supervisory

## 41. CAPITAL MANAGEMENT (continued)

Pillar 2 – Supervisory Review and Evaluation Process ("SREP") (continued)

view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group.

Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process ("ICAAP"), while at the same time maintaining communication with supervisors on a continuous basis. The key objective behind ICAAP is to ensure the Bank has sufficient capital resources to support its business and be able to withstand any adverse future conditions which may threat its capital position.

Pillar 2 – Supervisory Review and Evaluation Process ("SREP") (continued)
In conjunction with the ICAAP banks are required to prepare the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP acts as a control cycle through which the Bank identifies, evaluates, manages and monitors its liquidity risks. The key objective behind ILAAP is to ensure the Bank has sufficient liquidity resources to support its business and be able to withstand any adverse future conditions which may threat its liquidity position.

The ILAAP report is reported to the CBC and evaluated during the SREP in conjunction with the ICAAP report. During 2020 the Bank conducted the ILAAP to present an overview of the Bank's approach to liquidity risk management and an assessment of the prudent level of liquidity resources that the Bank should hold based on its liquidity risk appetite. During 2020, the Bank also conducted the ICAAP to arrive at a forward looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilizing internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework. It is noted that during the months or the preparation of the ILAAP and ICAAP reports the COVID-19 global pandemic gradually unfolded. Given the uncertainties around the duration and depth of the economic consequences of the pandemic, as well as the response to it by the governments through targeted measures, its impact on the Bank's business plan has not been fully assessed in time for incorporating within the ILAAP and ICAAP assessments. However, standalone exercises have been performed on the COVID-19 impact assessments which were presented in both the ILAAP and ICAAP reports.

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 the Central Bank Directive, 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.

**Capital position**
As at 31 December 2020 the Bank's capital adequacy ratio stood at 15,01% and was in compliance with the regulatory minimum Overall Capital Requirement ('OCR') of 13,60% and above the OCR including Pillar II Guidance ('P2G').

**Leverage Ratio**
According to the Regulation No.2015/62 of the European Parliament and Council dated 10 October 2017, the leverage ratio is expressed as a percentage and calculated on a quarterly basis as an institution's capital measure divided by the institution's total exposure measure. The leverage ratio is calculated using two capital measures:

(a) Tier 1 capital: fully phased-in definition

(b) Tier 1 capital: transitional definition.

Based on the transitional definition, as at 31 December 2020 the Leverage Ratio of the Group was 6,59% compared to 7,92% as at 31 December 2019.

## 42. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Some differences may arise between the carrying value and the fair value. The definition of fair value assumes that the Group will continue its normal operations without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms which would bring about losses to the Group. Generally accepted methods of determining fair value include reference to quoted market prices and transactions for similar financial instruments.

The Group uses the following hierarchy to classify and disclose fair value:

**Level 1:** investments measured at fair value using quoted prices in active markets for similar investments;

**Level 2:** investments measured at fair value using valuation models in which all elements that significantly influence fair value are based on observable market data either directly (i.e. as prices) or indirectly (i.e. derived from prices);

**Level 3:** investments measured at fair value using valuation models in which elements that significantly influence fair value are not based on observable market data.

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

| | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| **31 December 2020** | | | | |
| **Assets measured at fair value** | | | | |
| Financial assets at fair value through other comprehensive income | - | - | 6.171.883 | 6.171.883 |
| Financial assets at fair value through profit or loss | 3.609.085 | 578.232 | 7.833.023 | 12.020.340 |
| Derivative financial instruments | - | 110.624 | - | 110.624 |
| Property and equipment | - | - | 34.699.068 | 34.699.068 |
| | **3.609.085** | **688.856** | **48.703.974** | **53.001.915** |
| **Other financial assets not measured at fair value** | | | | |
| Cash and balances with Central Banks | - | 591.779.752 | - | 591.779.752 |
| Placements with other banks | - | 55.678.884 | - | 55.678.884 |
| Debt securities | 865.514.938 | - | - | 865.514.938 |
| Loans and advances to customers | - | - | 1.100.393.485 | 1.100.393.485 |
| Other assets | - | - | 15.071.110 | 15.071.110 |
| | **865.514.938** | **647.458.636** | **1.115.464.595** | **2.628.438.169** |
| | | | | |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | 670.326 | - | 670.326 |
| | **-** | **670.326** | **-** | **670.326** |
| **Liabilities not measured at fair value** | | | | |
| Funding from Central Banks | - | 399.068.750 | - | 399.068.750 |
| Amounts due to other banks and deposits from banks | - | 40.926.235 | - | 40.926.235 |
| Deposits and other customer accounts | - | - | 2.105.730.886 | 2.105.730.886 |
| Subordinated bond | - | - | 16.121.386 | 16.121.386 |
| Other liabilities | - | - | 81.864.534 | 81.864.534 |
| | **-** | **439.994.985** | **2.203.716.806** | **2.643.711.791** |

There were no significant transfers between levels during the year.

**42. FAIR VALUE OF ASSETS AND LIABILITIES (continued)**

| | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| **Assets measured at fair value** | | | | |
| Financial assets at fair value through other comprehensive income | - | - | 6.227.087 | 6.227.087 |
| Financial assets at fair value through profit or loss | 14.253.110 | 1.067.164 | 15.678.752 | 30.999.026 |
| Derivative financial instruments | - | 225.113 | - | 225.113 |
| Property and equipment | - | - | 35.946.344 | 35.946.344 |
| | **14.253.110** | **1.292.277** | **57.852.183** | **73.397.570** |
| **Other financial assets not measured at fair value** | | | | |
| Cash and balances with Central Banks | - | 241.825.289 | - | 241.825.289 |
| Placements with other banks | - | 90.502.226 | - | 90.502.226 |
| Debt securities | 703.499.833 | - | - | 703.499.833 |
| Loans and advances to customers | - | - | 997.890.657 | 997.890.657 |
| Other assets | - | - | 9.428.048 | 9.428.048 |
| | **703.499.833** | **332.327.515** | **1.007.318.705** | **2.043.146.053** |
| | | | | |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | 156.006 | - | 156.006 |
| | **-** | **156.006** | **-** | **156.006** |
| **Liabilities not measured at fair value** | | | | |
| Amounts due to other banks and deposits from banks | - | 17.921.226 | - | 17.921.226 |
| Deposits and other customer accounts | - | - | 2.007.425.085 | 2.007.425.085 |
| Other liabilities | - | - | 56.813.292 | 56.813.292 |
| | **-** | **17.921.226** | **2.064.238.377** | **2.082.159.603** |

There were no significant transfers between levels during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise of Government and corporate bonds listed in Stock Exchanges and classified at fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market (for example equity instruments not listed in an active market) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

## 42. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Adjusted comparable multiples of market prices to book value.
- Other techniques, such as discounted cash flow analysis and dividend discount model.

The fair value of the loans and advances to customers classified as Level 3 in the table above approximates their carrying amounts.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2020:

| | FVTOCI € | FVTPL € | PROPERTY AND EQUIPMENT € | TOTAL € |
|---|---|---|---|---|
| 1 January 2020 | 6.227.087 | 31.224.139 | 35.946.345 | 73.397.571 |
| Additions | 14.560 | 539.497.539 | 2.197.539 | 541.709.638 |
| Revaluation gains recognised in consolidated income statement | - | 1.466.769 | 153.763 | 1.620.532 |
| Disposals and transfers | (69.764) | (559.291.739) | (857.396) | (560.218.899) |
| Depreciation | - | - | (2.750.908) | (2.750.908) |
| Contract modification | - | - | 9.725 | 9.725 |
| Foreign exchange gain | - | (765.744) | - | (765.744) |
| **31 December 2020** | **6.171.883** | **12.130.964** | **34.699.068** | **53.001.915** |
| | | | | |
| **Total gains for the year included in the consolidated income statement** | | | | |
| Change in unrealised gains for the year included in the consolidated income statement for assets held at the end of the reporting year | - | 701.025 | 153.763 | 854.788 |

## 42. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019 :

| | FVTOCI € | FVTPL € | PROPERTY AND EQUIPMENT € | TOTAL € |
|---|---|---|---|---|
| 1 January 2019 | 6.990.945 | 22.972.338 | 28.010.054 | 57.973.337 |
| Additions | - | 298.583.287 | 8.311.957 | 306.895.244 |
| Revaluation gains recognised in consolidated income statement | - | 4.923.087 | 1.830.295 | 6.753.382 |
| Revaluation (losses)/ gains recognised in consolidated statement of other comprehensive income | (763.858) | - | 672.678 | (91.180) |
| Contract modification | | | 258.497 | 258.497 |
| Disposals and transfers | - | (295.445.132) | (535.243) | (295.980.375) |
| Depreciation | - | - | (2.601.893) | (2.601.893) |
| Foreign exchange gain | - | 190.559 | - | 190.559 |
| **31 December 2019** | **6.227.087** | **31.224.139** | **35.946.345** | **73.397.571** |
| | | | | |
| **Total gains for the year included in the consolidated income statement** | | | | |
| Change in unrealised gains for the year included in the consolidated income statement for assets held at the end of the reporting year | - | 5.113.646 | 1.830.295 | 6.943.941 |

### 43. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

**31 December 2020**

| | FVTPL<br>€ | FVOCI –Equity instruments<br>€ | Amortised cost<br>€ | Total carrying amount<br>€ |
|---|---|---|---|---|
| **Assets** | | | | |
| Balances with Central Banks | - | - | 591.779.752 | 591.779.752 |
| Placements with other banks | - | - | 55.678.884 | 55.678.884 |
| Derivative financial instruments | 110.624 | - | - | 110.624 |
| Loans and advances to customers | - | - | 1.100.393.485 | 1.100.393.485 |
| *Investment securities:* | | | | |
| -Debt securities | 3.609.085 | - | 858.895.721 | 862.504.806 |
| -Equity securities | 7.833.023 | 6.171.883 | - | 14.004.906 |
| -Other investments | 578.232 | - | - | 578.232 |
| Other assets | - | - | 15.071.110 | 15.071.110 |
| **Total financial assets** | **12.130.964** | **6.171.883** | **2.621.818.952** | **2.640.121.799** |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | 670.326 | - | - | 670.326 |
| Funding from Central Banks | - | - | 399.068.750 | 399.068.750 |
| Amounts due to other banks and deposits from banks | - | - | 40.926.235 | 40.926.235 |
| Deposits and other customer accounts | - | - | 2.105.730.886 | 2.105.730.886 |
| Subordinated bond | - | - | 16.121.386 | 16.121.386 |
| Other liabilities | - | - | 81.864.534 | 81.864.534 |
| **Total financial liabilities** | **670.326** | **-** | **2.643.711.791** | **2.644.382.117** |

**31 December 2019**

| | FVTPL<br>€ | FVOCI –Equity instruments<br>€ | Amortised cost<br>€ | Total carrying amount<br>€ |
|---|---|---|---|---|
| **Assets** | | | | |
| Balances with Central Banks | - | - | 241.825.289 | 241.825.289 |
| Placements with other banks | - | - | 90.502.226 | 90.502.226 |
| Derivative financial instruments | 225.113 | - | - | 225.113 |
| Loans and advances to customers | - | - | 997.890.657 | 997.890.657 |
| *Investment securities:* | | | | |
| -Debt securities | 14.253.109 | - | 698.532.762 | 712.785.871 |
| -Equity securities | 15.678.753 | 6.227.088 | - | 21.905.841 |
| -Other investments | 1.067.164 | - | - | 1.067.164 |
| Other assets | - | - | 9.428.048 | 9.428.048 |
| **Total financial assets** | **31.224.139** | **6.227.088** | **2.038.178.982** | **2.075.630.209** |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | 156.006 | - | - | 156.006 |
| Amounts due to other banks and deposits from banks | - | - | 17.921.226 | 17.921.226 |
| Deposits and other customer accounts | - | - | 2.007.425.085 | 2.007.425.085 |
| Other liabilities | - | - | 56.813.292 | 56.813.292 |
| **Total financial liabilities** | **156.006** | **-** | **2.082.159.603** | **2.082.315.609** |

### 44. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Less than one year € | Over one year € | Total € | Less than one year € | Over one year € | Total € |
| **Assets** | | | | | | |
| Cash and balances with Central Banks | 573.655.929 | 18.123.823 | 591.779.752 | 224.069.184 | 17.756.105 | 241.825.289 |
| Placements with other banks | 55.678.884 | - | 55.678.884 | 90.502.226 | - | 90.502.226 |
| Derivative financial instruments | 110.624 | - | 110.624 | 225.113 | - | 225.113 |
| Financial assets at FVTPL | 3.609.085 | 8.411.255 | 12.020.340 | 20.092.540 | 10.906.486 | 30.999.026 |
| Financial assets at FVTOCI | - | 6.171.883 | 6.171.883 | - | 6.227.087 | 6.227.087 |
| Debt securities | 450.658.512 | 408.237.209 | 858.895.721 | 361.820.031 | 336.712.731 | 698.532.762 |
| Loans and advances to customers | 30.161.785 | 1.070.231.700 | 1.100.393.485 | 88.110.664 | 909.779.993 | 997.890.657 |
| Investment in associate | - | 3.682.602 | 3.682.602 | - | - | - |
| Other assets | 12.066.253 | 3.004.857 | 15.071.110 | 8.022.899 | 1.405.149 | 9.428.048 |
| Stock of property | 23.300.000 | 121.503.288 | 144.803.288 | 3.088.800 | 144.576.172 | 147.664.972 |
| Property and equipment | 7.602 | 34.691.466 | 34.699.068 | - | 35.946.344 | 35.946.344 |
| Intangible assets | - | 7.016.388 | 7.016.388 | - | 3.047.619 | 3.047.619 |
| Deferred tax asset | - | 2.510.237 | 2.510.237 | - | 3.789.023 | 3.789.023 |
| **Total assets** | **1.149.248.674** | **1.683.584.708** | **2.832.833.382** | **795.931.457** | **1.470.146.709** | **2.266.078.166** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Amounts due to other banks and deposits from banks | 40.926.235 | - | 40.926.235 | 9.795.478 | 8.125.748 | 17.921.226 |
| Funding from Central Banks | 99.845.891 | 299.222.859 | 399.068.750 | - | - | - |
| Derivative financial instruments | 152.395 | 517.931 | 670.326 | 156.006 | - | 156.006 |
| Deposits and other customer accounts | 293.348.598 | 1.812.382.288 | 2.105.730.886 | 231.814.585 | 1.775.610.500 | 2.007.425.085 |
| Other liabilities | 69.836.641 | 12.139.382 | 81.976.023 | 42.592.159 | 14.332.365 | 56.924.524 |
| Subordinated bond | - | 16.121.386 | 16.121.386 | - | - | - |
| Deferred tax liability | - | 1.610.881 | 1.610.881 | - | 1.285.019 | 1.285.019 |
| **Total liabilities** | **504.109.760** | **2.141.994.727** | **2.646.104.487** | **284.358.228** | **1.799.353.632** | **2.083.711.860** |

## 44. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY (continued)

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

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell the security.

Stage 1 and stage 2 loans and advances to customers are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'Over one year' time band. The Stage 3 and POCI loans are classified in the 'Over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits maturing within one year is classified in the 'Over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

## 45. RELATED PARTY TRANSACTIONS

The Group is owned by a number of investors, none of which, has a direct or indirect controlling interest on the Group.

***Key management personnel***

Key Management personnel are those persons who have the authority and the responsibility for the planning, management and control of the Banks' operations, directly or indirectly.

As at 31 December 2020 and 2019 the key management personnel consisted of the members of the Group's Executive Committee. On 27 August 2020, the Board of Directors decided to appoint Mr. Aristidis Vourakis as Chief Executive Officer ("CEO") and member of the Board of Directors subject to the consent of the Central Bank of Cyprus ("CBC") and his election at the next Annual General Meeting. The appointment of Mr. Aristidis Vourakis has been approved by CBC on 25 November 2020. Mr. Aristidis Vourakis assumed his executive duties on 27 November 2020.

Connected persons include spouses, dependent children, as well as companies in which key management personnel hold, directly or indirectly, at least 10% of the voting rights during a General meeting.

The table below presents transactions and balances with the key management personnel and board members, and connected persons as at 31 December 2020 and 31 December 2019. The table does not include year end balances of members of the Board of Directors and key management personnel and their connected persons who resigned during the year.

| | **2020** **€** | **2019** **€** |
|---|---:|---:|
| Loans and advances | 10.301 | 387.819 |
| Interest income | 6.818 | 8.874 |
| Deposits | 9.820.267 | 6.568.844 |
| Interest expense | 18.932 | 138.217 |
| Other fees | 73.590 | 66.497 |

There were no contingent liabilities or commitments towards the Group's key management personnel.

## 45. RELATED PARTY TRANSACTIONS (continued)

The table below presents the remuneration and the voluntary redundancy costs of the former members of the Group's Executive Committee, for the period up to their employment termination date with the Group.

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Key management personnel remuneration:**<br>Salaries and other benefits (including voluntary redundancy costs) and employer's contributions | 2.415.850 | 1.431.064 |
| Salaries and other benefits (including voluntary redundancy costs) and employer's contributions | **2.415.850** | **1.431.064** |
| Total key management personnel remuneration – as directors | - | - |

**Non-executive directors' remuneration**

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Total remuneration of non-executive directors | 618.958 | 627.808 |

***Investment in associate***

The Group holds 25,1% of QQuant's share capital, an associate company with principal activity the management of the Group's portfolio of Non Performing Exposures and Real Estate Owned Assets. Transactions with QQuant are presented in Note 23.

## 46. AGREEMENT WITH NBG (Cyprus) Ltd

A Share and Purchase Agreement ("SPA") has been signed on the 26th of November, 2019 between AstroBank and National Bank of Greece for the sale of the 100% stake of National Bank of Greece (Cyprus) Ltd.

The deadline for completion ("Long Stop Date") has expired and therefore AstroBank has terminated the SPA in accordance with the terms and provisions thereof.

An arbitration proceeding will commence in relation to the amount deposited by AstroBank to National Bank of Greece (Cyprus) Ltd of €3.8 million (Note 24) as part of the SPA.

## 47. ACQUISITION OF ARAB JORDAN INVESTMENT BANK S.A CYPRUS BRANCH

On 28 February 2020 the Bank and Arab Jordan Investment Bank S.A (AJIB) signed an agreement for the sale and purchase of the branch business of AJIB Bank in Cyprus ("SBA") which was subject to the satisfaction of certain conditions. The Parties have mutually agreed to terminate the SBA prior to completion with effect from 30 July 2020.

## 48. EVENTS AFTER THE REPORTING PERIOD

*TLTRO III*

In December 2020 the ECB announced the extension of the period over which more favourable terms will apply to the third series of targeted longer-term refinancing operations (TLTRO III) by twelve months, to June 2022 and also announced that three additional TLTRO III operations will be conducted between June and December 2021.

The Group already participated in 2020 in TLTRO III by borrowing €300 million, which may benefit from the favourable terms for a further 12 months following the announcement by the ECB in December 2020, provided it meets the lending threshold set by the ECB. In addition, in March 2021 the Company borrowed additional €100 million under the new TLTRO III operation.

## 48. EVENTS AFTER THE REPORTING PERIOD (continued)

*Acquisition of Byblos Bank S.A.L. Cyprus branch*

On 12 May 2021 the Bank and Byblos Bank S.A.L. signed an agreement for the sale and purchase of the branch business of Byblos Bank in Cyprus. Under this agreement, the Bank will acquire the banking business and undertaking, assets, collaterals and liabilities of Byblos Bank branch in Cyprus as well as transfer of all staff under their current terms of employment, excluding only certain assets of Byblos Bank Cyprus branch.

The completion of the agreement is subject to the satisfaction of conditions precedent including, the written unconditional approvals of the transaction from both the Central Bank of Cyprus and the Commission for the Protection of Competition.

## GLOSSARY AND DEFINITIONS

| Name | Definition |
|---|---|
| Capital adequacy ratio (transitional) | Total capital divided by Risk Weighted Assets. |
| CET 1 ratio | Common Equity Tier 1 capital divided by Risk Weighted Assets. |
| Cost to income ratio | Total expenses (as defined) divided by total income (as defined excluding non-recurring income). |
| Gross Loans and advances to customers | Gross Loans comprise of gross loans and advances to customers measured at amortised cost after the residual fair value adjustment on initial recognition and before deducting accumulated impairment losses.<br><br>Gross loans are reported after the residual fair value adjustment on initial recognition relating mainly to loans acquired from USB Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired). |
| Gross Loans with forbearance measures | Forborne Exposures (EBA definition). |
| Investment in associate company | Refers to the Group's investment in QQuant and represents the Group's retained interest in QQuant and the corresponding share of profits. |
| Liquid assets | Consist of Cash and balances with Central Banks, placements with other banks, net loans and advances, investments in debt securities at amortised cost and debt securities at fair value through profit or loss. For calculating the average of the liquid assets, the Group uses the arithmetic average of total liquid assets at each reporting date from the beginning of the year. |
| Liquidity Coverage ratio (LCR) | Is the sum of high quality liquid assets over the expected net liquidity outflows during the next 30 days, as these net outflows are specified under a stress scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. |
| Net fee and commission income | Fee and commission income less fee and commission expense. |
| Net gains on financial instrument transactions | Consist of gain on disposal and revaluation of foreign currencies, gain on disposal and revaluation of debt securities and other financial instruments, surplus on revaluation of equity and other securities, changes in the fair value of financial instruments in fair value hedges and gain on disposal of associates and subsidiaries. |
| Net interest income | Interest income less interest expense. |
| Net Interest Margin ratio (NIM) | Net interest income divided by the average liquid assets. |
| Net loans | Net loans and advances to customers comprise gross loans (as defined) net of allowance for expected loan credit losses (excluding allowance for expected credit losses on off-balance sheet exposures disclosed on the balance sheet within other liabilities). |
| Net loans to deposits ratio | Net loans and advances to customers (as defined) divided by deposits and other customer accounts. |
| Non-interest income | Consist of net fee and commission income, other income and net gains on financial instrument transactions. |
| NPEs | Gross non-performing exposures (EBA definition applicable as at 31 December 2020). |
| NPE ratio | NPES gross loans and advances after fair value adjustment divided by gross loans and advances after value adjustment. |
| NPE provision coverage ratio | Expected credit losses on NPES divided by NPES after residual fair value adjustment on initial recognition. |
| Other income | Consist of dividend income, gain from disposal of stock of property and other sundry income. |
| Total income | Consist of net interest income, net fee and commission income, other income and net gains on financial instrument transactions. |

**GLOSSARY AND DEFINITIONS (continued)**

| Name | Definition |
|---|---|
| Total expenses | Consist of staff expenses (excluding voluntary redundancy costs), depreciation and amortisation, Special levy, contributions to Single Resolution Fund and other levies and other operating expenses. |
| Return on average assets | Profit for the year divided by the arithmetic average of total assets at each reporting date from the beginning of the year. |
| Return on average equity | Profit for the year divided by the arithmetic average of total equity at each reporting date from the beginning of the year. |