AstroBank Group

Annual Financial Report

For the year ended 31 December 2023

Contents

Board of Directors and Independent Auditors as at 31 December 2023

Board of Directors AstroBank Public Company Limited	Michalis Sarris Independent Non-Executive Chairman
	Bassam Najib Diab Non-Executive Vice Chairman (with effect from 5 December 2023)
	Maria Dionyssiades Independent Non-Executive Director
	William J. Gallagher Independent Non-Executive Director
	Costas Partassides Independent Non-Executive Director
	Aristidis Vourakis Executive Director, Chief Executive Officer
	Evi Rossidou Antoniadou Executive Director
Company Secretary	Maria Venizelou Head of Legal Services and Corporate Governance
Independent Auditors	Ernst and Young Cyprus Ltd Jean Nouvel Tower 6 Stasinou Avenue 1060 Nicosia Cyprus
Legal advisors	Chrysostomides Advocates and Legal consultants L. Papaphilippou & Co. LLC
Headquarters/Registered office	1 Spyrou Kyprianou Avenue CY-1065 Nicosia P O Box 25700 CY-1393 Nicosia Cyprus

The Consolidated Financial Statements for the year ended 31 December 2023 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 2023.

Incorporation, activities and branch network

The Bank was incorporated in Cyprus on 29 December 2006 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 period 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. The Group companies are set out in Note 40 to the Consolidated Financial Statements. The Bank provides banking and financial services through its branch network in Cyprus. As at 31 December 2023, the branch network included 14 branches.

Percentages of Major Shareholders

The table below indicates the percentages of the Shareholders holding more than 5% of the Bank's issued share capital as at 31 December 2023:

	31 December 2023		31 December 2022	
Shareholders	**# of ordinary shares 000**	**% held**	**# of ordinary shares 000**	**% held**
Maurice Sehnaoui[1]	5.188	21,96%	4.938	20,90%
Bassam Najib Diab	4.021	17,02%	4.021	17,02%
Piraeus Bank S.A.	2.362	10,00%	2.362	10,00%
WG Cyprus (Holding) SAL	2.263	9,58%	2.263	9,58%
Mar Takla Palace SAL	1.196	5,06%	1.196	5,06%
Medical, Provident and Welfare Fund of Cyprus Bank Employees[2]	1.316	5,57%	678	2,87%
Other (#shareholders 2023:23, 2022:25)	7.279	30,81%	8.167	34,57%
Total	**23.625**	**100%**	**23.625**	**100%**

[1] Direct shareholding of 250.000 shares and indirect shareholding of 4.938.061 shares. The indirect holding of Mr. Maurice Sehnaoui arises from the shares held by Holding M. Sehnaoui S.A.L.
[2] Aggregate holdings of three separate funds.

Financial results

Consolidated Income Statement

	2023 €000	2022 €000
Interest income	95.285	54.744
Income similar to interest income	1.456	875
Interest expense	(21.951)	(4.382)
Net interest income	**74.790**	**51.237**
Fee and commission income	17.436	18.771
Fee and commission expense	(1.643)	(1.877)
Net fee and commission income	**15.793**	**16.894**
Other income	2.450	5.560
Net gain/(loss) on financial instrument transactions	2.153	(816)
Gain/(loss) on derecognition of financial assets measured at amortised cost	2.056	(193)
Total operating income	**97.242**	**72.682**
Staff expenses[1]	(27.078)	(25.850)
Other operating expenses[1]	(16.169)	(15.876)
Depreciation and amortisation[1]	(3.333)	(3.701)
Special levy on deposits and other levies/contributions	(4.302)	(4.120)
Total operating expenses	**(50.882)**	**(49.547)**
Operating profit before impairment losses	**46.360**	**23.135**
(Impairment)/reversal of impairment on financial assets	(3.354)	33
Impairment losses on non-financial assets	(3.332)	(3.013)
Write-off of intangible assets	-	(711)
Profit before share of results of associate	**39.674**	**19.444**
Share of loss of associate	-	(419)
Profit before tax	**39.674**	**19.025**
Income tax (charge)/credit	(265)	2.684
Profit for the year before non-recurring items	**39.409**	**21.709**
One off/non-recurring items[2]	(8.994)	(9.527)
Profit for the year	**30.415**	**12.182**

[1] Excluding non-recurring items.
[2] Non-recurring items represent cost for the voluntary staff exit plan and servicer's settlement fees.

Financial results (continued)

Consolidated Statement of Financial Position

	2023 €000	2022 €000
Assets		
Cash and balances with central banks	984.567	782.631
Placements with other banks	22.720	21.943
Derivative financial instruments	4.906	1.305
Financial assets at fair value through profit or loss	6.509	12.907
Financial assets at fair value through other comprehensive income	6.389	6.395
Debt securities	557.028	585.409
Loans and advances to customers	933.421	1.090.667
Investment in associate company	186	186
Other assets	22.750	17.730
Investment property	24.967	19.850
Stock of property	119.808	140.528
Property and equipment	31.911	32.898
Intangible assets	7.664	9.507
Deferred tax asset	2.082	4.192
Total assets	**2.724.908**	**2.726.148**
Liabilities		
Amounts due to other banks and deposits from banks	24.517	13.134
Funding from central banks	204.910	296.502
Derivative financial instruments	4.074	139
Deposits and other customer accounts	2.154.801	2.111.912
Subordinated liabilities	16.459	16.463
Debt securities in issue	32.746	21.379
Other liabilities	51.329	58.646
Deferred tax liability	1.971	4.297
Total liabilities	**2.490.807**	**2.522.472**
Total equity	**234.101**	**203.676**
Total equity and liabilities	**2.724.908**	**2.726.148**

Financial results (continued)

Key Performance Indicators[1]		2023	2022
Asset quality	NPE Ratio	14,9%	19,8%
	NPE Coverage Ratio	44,0%	46,1%
	Net NPEs	€84,3m	€128,9m
Capital	Common Equity Tier 1 (CET1) ratio (Transitional)	22,1%	16,5%
	Capital Adequacy Ratio (Transitional)	23,7%	18,0%
Balance Sheet	Total Assets	€2.725m	€2.726m
	Net Loans and advances to customers	€933m	€1.091m
	Accumulated expected credit losses on loans and advances to customers	€74m	€118m
	Deposits and other customer accounts	€2.155m	€2.112m
Liquidity	Liquid assets/Deposits	72,9%	66,3%
	Net Loans/Deposits	43,3%	51,6%
	Liquidity Coverage Ratio	366%	281%
Efficiency	Net interest margin	3,0%	1,9%
	Fee and commission income/ Total operating income	16,2%	23,2%
	Cost/Income	52,3%	68,2%
Profitability	Return on Average Assets	1,1%	0,4%
	Return on Average Equity	13,9%	6,2%

The financial information presented above provides an overview of the Group's financial results for the years ended 31 December 2023 and 31 December 2022 on the 'underlying basis' stating separately the exceptional one-off /non-recurring items in the consolidated income statement, regarding the cost for the voluntary staff exit plan and the servicer's cost, as the management believes that this reflects better the true measurement of the performance of the Group. Certain figures in this Management report have been rounded in million to present them more clearly. The above KPI measures were selected by management for measure of own performance, but they are not defined by IFRS.

The primary statements of the Group for the year ended 31 December 2023 is set out on pages 16 to 21.

[1] Definitions and explanations are stated on pages 130-131.

Financial performance overview

Income statement analysis
The Group's profit after tax before non-recurring items for the year ended 31 December 2023 amounted to €39,4 million (2022: €21,7 million). The Group's profit after tax for the year ended 31 December 2023 amounted to €30,4 million (2022: €12,2 million).

Net Interest Income
Net interest income (NII) for the year ended 31 December 2023 was €74,8 million, up by 46,0% compared to €51,2 million for the year ended 31 December 2022, reflecting the impact of higher interest rates and effect on the loan book and liquid assets and lower pass through on funding costs.

The net interest margin for the year ended 31 December 2023 was 3,0% (31 December 2022: 1,9%) supported by the rising interest rate environment.

Non-interest income
Non-interest income for 2023 amounted to €22,5 million (2022: €21,4 million) up by 4,7% compared to 2022, comprising mainly net fee and commission income of €15,8 million (2022: €16,9 million), net gains on financial instrument transactions of €2,2 million (2022: loss €0,8 million), gains from the derecognition of financial assets measured at amortised cost of €2,1 million (2022: loss €0,1 million) and other income of €2,5 million (2022: €5,6 million).

Net fee and commission income
Net fee and commission income for 2023 amounted to €15,8 million (2022: €16,9 million), down by 6,5% compared to 2022 driven mainly by lower volume of transactions.

Net gain/(loss) on financial instrument transactions
Net gain on financial instrument transactions amounted to €2,2 million compared to a loss of €0,8 million in 2022. The gain in 2023 comprised mainly of net foreign exchange gains whereases the loss in 2022 is driven from revaluation loss of €3,1 million of fund participation.

Other income
Other income for 2023 amounted to €2,5 million compared to €5,5 million in 2022 decreased by 55,9%. Other income relates primarily to rental income, dividend from equity investments and profit from disposal of stock of properties. The year-on-year decrease is driven by lower net gains from the disposal of stock of properties (REOs).

Expenses
Total expenses for the year ended 31 December 2023 were €50,9 million, compared to €49,5 million for the year ended 31 December 2022 and increased by 2,9%.

The staff costs (€27,1 million) represent 53,2% of total expenses, 31,8% to other operating expenses (€16,2 million), 6,6% to depreciation and amortisation expense (€3,3 million) and 8,5% (€4,3 million) to special levy, contributions to Single Resolution Fund and other levies. The annual increase is driven mainly by the increase in staff costs analysed further below.

Staff costs
Staff costs of €27,1 million for 2023 increased by 4,8%, compared to €25,9 million in 2022. Staff costs are increased by €1,2 million reflecting the annual increments stemming from the union collective agreement and the increased cost of living adjustment (COLA), partially offset by the saving from the voluntary staff exit plans. Based on the Collective Agreement, the employers' contributions to the Provident Fund for 2023 was set at 9,0% for year 2023 (2022: 8%) of the employees' gross salaries.

During 2023, the Group completed a voluntary staff exit plan through which 55 full-time employees were approved to leave at a total cost of €7,0 million (2022: 16 full-time employees at a total cost of €1,9 million).

The number of persons employed by the Group as at 31 December 2023 was 392 permanent and 22 temporary (2022: 443 permanent and 22 temporary).

Financial performance overview (continued)

Income statement analysis (continued)

Expenses (continued)

Other operating expenses
Other operating expenses mainly consist of information technology expenses, legal, professional and regulatory fees, buildings and other assets' maintenance costs and special levy on deposits and other levies/contributions.

Other operating expenses for 2023 were €16,2 million, up by 1,8% from €15,9 million in 2022 resulting mainly from increased legal fees due to one off cost incurred for a litigation case (Note 38).

The cost to income ratio for the year ended 31 December 2023 was 52,3% compared to 68,2% for the year ended 31 December 2022 driven mainly by the higher total income and the management's ongoing focus on efficiency and cost discipline.

Profit before impairment losses
Pre-provisions income arising mainly from core banking activities is improved in 2023 at €46,4 million from €23,1 million in 2022, an increase of 100,9%, driven mainly by the significant increase in net interest income.

Impairment losses on financial and non-financial assets
The Group's impairment losses on financial assets for the year ended 31 December 2023 amounted to a charge of €3,4 million compared to €33 thousand net credit for the year ended 31 December 2022. The increase in 2023 is primarily due to increased impairment on loans classified under Stage 3 category.

The Group's impairment losses on non-financial assets amounted to €3,3 million for the year ended 31 December 2023, compared to €3,0 million for the year ended 31 December 2022. The impairment losses of 2023 mainly relate to impairment of stock of property (REOs) as a result of idiosyncratic specificities of certain properties following changes in their planning zones, while the impairment losses of 2022 relate to the impairment of various leasehold improvements classified as property and equipment.

Taxation
The Group's net tax charge for the year ended 31 December 2023 amounted to €0,3 million, positively impacted from utilisation of prior year tax losses that no deferred tax asset was previously recognised. The tax credit in 2022 amounted to €2,7 million and was mainly due to the recognition of deferred tax asset of previous years carried forward tax losses.

Statement of financial position analysis
The Group's total assets amounted to €2.725 million as at 31 December 2023 (31 December 2022: €2.726 million), broadly stable compared to prior year.

Funding from Central Banks
As at 31 December 2023, the funding from central banks amounted to €200 million (2022: €300 million), which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III. The Bank proceeded with the repayment of €100 million TLTRO III funding in September 2023 and by €100 million on 27 March 2024.

Deposits
Customer deposits totaled €2.155 million as at 31 December 2023 (31 December 2022: €2.112 million), presenting an increase of 2,0%. They comprised of deposits in Euro and foreign currencies, mostly US Dollars and British Pounds.

Statement of financial position analysis (continued)

Deposits (continued)

Deposits by type	31 December 2023 €m	% of total deposits	31 December 2022 €m	% of total deposits
Demand	1.023	47,5%	1.182	55,9%
Savings	359	16,7%	402	19,0%
Term	773	35,8%	528	25,1%
Total deposits	**2.155**	**100,0%**	**2.112**	**100,0%**

Customers deposits accounted for 86,5% of total liabilities at 31 December 2023, compared to 83,7% of total liabilities at 31 December 2022.

Subordinated liabilities
As at 31 December 2023, the carrying amount of the Group's subordinated liabilities (including accrued interest) amounted to €16,5 million and relate to unsecured subordinated Tier 2 bonds.

The bond was priced at par with a coupon of 8% per annum, payable quarterly. The bond matures in June 2030 (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 in December 2025, subject to applicable regulatory consents.

Debt securities in issue
In July 2023, the Bank issued €9,0 million and US$4,5 million in the form of senior preferred bonds. The bonds were priced at par with a coupon of 7,875% and 9,0% per annum respectively, payable annually. The bonds mature in January 2027 (3,5 years from the issuance date) with an early repayment option in January 2026, subject to applicable regulatory consent. The bonds comply with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contribute towards Bank's MREL requirements. The bonds are listed on the Emerging Companies Bonds Market of the Cyprus Stock Exchange.

In December 2023, the Bank issued €8,2 million and US$12,2 million in the form of senior preferred bonds. The bonds were priced at par with a coupon of 6,5% and 8,5% per annum respectively, payable semi-annually. The bonds mature in June 2026 (2,5 years from the issuance date) with an option to redeem one year earlier, in June 2025, subject to applicable regulatory consent. The bonds comply with the criteria for MREL classification and contribute towards Bank's MREL requirements. The bonds will be listed on the Emerging Companies Bonds Market of the Cyprus Stock Exchange.

In December 2023, the Bank exercised the option for early redemption right of the bonds issued in December 2022, of nominal value of €5,2 million and US$9,8 million, after obtaining the applicable regulatory consent (Note 34).

Liquidity
As at and during the year ended 31 December 2023, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank. The Liquidity Coverage Ratio (LCR) stood at 366% compared to 281% at 31 December 2022, well above the minimum regulatory requirement of 100%. The liquidity surplus in LCR at 31 December 2023 amounted to €909 million (compared to €626 million at 31 December 2022).

At 31 December 2023, the Group Net Stable Funding Ratio (NSFR) stood at 189% (compared to 165% at 31 December 2022), well above the minimum regulatory requirement of 100%.

Statement of financial position analysis (continued)

Loans and advances to customers
Gross loans totaled €1.007 million at 31 December 2023, compared to €1.208 million at 31 December 2022, decreased by 16,6%, with the Group's net loans and advances to customers totaled €933 million (compared to €1.091 million at 31 December 2022). The decrease in gross and net loans reflects the significant resolutions in the non-performing portfolio, early repayments of specific corporate loans and overall controlled loan growth.

Total new lending granted during 2023 reached approximately €90 million (2022: €165 million). The Group continued providing lending to creditworthy businesses and households, with focus on retail housing and secured lending to be capital efficient.

The net loans to deposits ratio stood at 43,3% as at 31 December 2023 (31 December 2022: 51,6%).

Loan Portfolio Quality
Improving the Group's loan portfolio quality and reduce drastically the NPEs, whilst managing potential and new inflows during the inflationary period and the rising interest rate environment, remains high priority for Management.

Non-Performing Exposures (NPEs) were reduced to €150 million as at 31 December 2023 compared to €239 million at 31 December 2022. NPEs account for 14,9% of gross loans as at 31 December 2023, compared to 19,8% at 31 December 2022, on the same basis.

Net NPEs were reduced to €84,3 million as at 31 December 2023 compared to €128,9 million at 31 December 2022.

The NPE provisions coverage ratio remains at 44,0% at 31 December 2023 (2022: 46,1%) despite the reduction in the amount of the accumulated impairments due to approximately €57,1 million write-offs implemented in 2023 (2022: €62,7 million). When taking into account tangible collateral, at fair value, NPEs are fully covered.

Further details on the loan portfolio of the Group are disclosed in Notes 22 and 41 of the consolidated financial statements for the year ended 31 December 2023.

Stock of property (REOs)
During the year ended 31 December 2023, the Group on-boarded €19 million (31 December 2022: €43 million) of assets via the execution of debt for asset swaps and foreclosures.

The Group also focuses on the disposal of on-boarded properties. During the year ended 31 December 2023 disposals reached €33,7 million (compared to €33,4 million in the year ended 31 December 2022). Notable momentum in the disposal activity exists with significant pipeline for completion in the first half of 2024. Property disposals during 2023, were across all property classes including, housing, agricultural and commercial land plot and residential buildings.

As at 31 December 2023, the Real Estate Owned Assets had a carrying value of €119,8 million compared to €140,5 million in 2022.

	31 December 2023	**31 December 2022**
Repossessed assets held by the Group	**€000**	**€000**
Opening balance	140.528	131.791
Transfer to investment properties	(2.704)	-
Transfer from PPE	124	-
On boarded during the year	18.923	43.063
Disposals	(33.736)	(33.433)
Impairment	(3.327)	(893)
31 December	**119.808**	**140.528**

Statement of financial position analysis (continued)

Share capital
There were no changes to the authorised or issued share capital during the year ended 31 December 2023. As at 31 December 2023, there were 23,6 million (2022: 23,6 million) issued ordinary shares with a nominal value of €1 each.

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
No dividends were declared or paid during 2023.

Capital
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.

The table below presents the actual ratios, on a transitional basis, as at each reporting period:

	31 December 2023	**31 December 2022**
CET1	€221m	€191m
Tier 1	€221m	€191m
Total Capital	**€238m**	**€208m**
Risk weighted assets	**€1.002m**	**€1.156m**
Common Equity Tier 1 ratio	22,1%	16,5%
Tier 1 ratio	22,1%	16,5%
Total Capital Adequacy Ratio	23,7%	18,0%
Leverage Ratio	7,9%	6,9%

During the year 2023, the capital ratios were positively affected by the profit of the year and by the decrease in the risk weighted assets ("RWAs"), primarily due to the reduction of the NPEs and repayment of loans. On 31 December 2023, on a fully loaded basis for IFRS 9 the CET1 and Total Capital ratios were at 22,1% and 23,7% respectively.

As at 31 December 2023, the minimum regulatory requirement for CET1 and TC stands at 9,9% and 15,0% respectively, including Pillar 2 Requirement (P2R) and Combined Buffers Requirements (CBR). The Bank is also subject to non-public guidance (P2G), under Pillar 2, in the form of CET1. The Bank's overall capital adequacy ratios are above the minimum regulatory requirements, including P2G.

Details of the capital management of the Bank are disclosed in Note 42 of the consolidated financial statements.

Minimum Requirement for own funds and Eligible Liabilities (MREL)
Based on the final decision of April 2024 the minimum requirement for own funds and eligible liabilities (MREL) for the Bank is set at 22,3% of Total Risk Exposure Amount ("TREA") and 5,3% of Leverage ratio exposure ("LRE") and this must be met by 31 December 2024. As at 31 December 2023, the MREL ratio calculated at 27,8% of RWA or 10,0% of LRE (31 December 2022: 19,2% of RWA and 8,0% of LRE) and meets the final binding target set by the regulators of 25,5% of RWAs, including the combined buffer requirement applicable as at 31 December 2023 and increases to 26,0% in June 2024 following increase of Countercyclical Buffer by 0,5% (Note 42).

Business Overview
Financial performance
During 2023, the Group generated remarkable level of profitability. The profit for the year before non-recurring items reached €39,3 million compared to €21,7 million in 2022, primarily due to increase of net interest income as well as cost containment efforts despite the inflation pressure. The net profit for the year after non-recurring items reached at €30,4 million compared to €12,1 million in 2022. Overall, the Group achieved return on average equity of 13,9% for the year.

Business Overview (continued)

Favourable interest rate environment
Based on the Group's balance sheet structure, most of the interest-bearing assets are floating and facilitate growth in net interest income upon interest rates rise. The repricing of the loan portfolio, which over half of it is Euribor based, as well as the balances with Central Bank and Bank Placements, benefited the Net Interest Income during 2023. The Group, considering the expectations for downward interest rate environment mid-2024 and onwards, proactively is taking measures and actions to reduce net interest income sensitivity. Such actions include investments into fixed rate bonds, including reinvestment of existing portfolio maturities, which earn relatively lower than current market yields, into higher yielding bonds.

Growing revenues in a more capital efficient way
The Group remains committed on growing revenues in a more capital efficient way and continues to provide high quality new lending. However, due to the continuing interest rate rises, the demand for new loans slowdown in 2023. During the year ended 31 December 2023, new lending amounted to c.€90 million.

As at 31 December 2023, the fixed income portfolio of the Group amounted to €557 million, which represents 20,4% of total assets. The portfolio comprises of highly rated bonds with low average duration. Most of the fixed income portfolio is measured at amortised cost and therefore no fair value gains/losses are recognised in the Group's income statement or equity.

The Group remains focused to continue improving income through less capital consuming initiatives, such as increase fee and commission as well as other income, by increasing business volumes, transactions, payments, cards volumes, insurance and other.

Digital transformation
The Group remains focused on deepening the relationship with its customers. A transformation plan is under implementation aiming to modernise the day-to-day transactions of the customer and provide high quality service, while at the same time increase efficiencies within the organisation. During 2023, the Bank launched the new digital banking and mobile app, aiming to leverage its digital capabilities and allow for cross-selling opportunities. Despite the digitisation actions, the Group remains focused on serving the customer by maintaining its human interaction.

As part of its digital transformation process and other internal reorganisation, actions to streamline operations, develop automations and increase efficiencies, the Group has proceeded into voluntary staff exit plans in 2023 aiming to achieve future cost savings.

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 capital and liquidity position of the Group and the current and future economic developments in order to make projections for future economic conditions of the environment in which it operates, taking also into consideration, the current and future operating environment (Note 5) and the Group's Business Plan approved by the Board.

The main macroeconomic developments that could cause uncertainties regarding the application of this principle relate to the challenges on the evolution of inflation and its decline at the long term target rate, that will also trigger the timing and pace of the interest rate cuts by the central banks. Management closely monitors the developments and the impact they may have on the Group's operations, business and financial performance, including liquidity and capital.

Based on the above and taking into account:

- the capital position, enhanced significantly from organic capital generation over the last years, with Total capital adequacy and CET1 ratios of 23,7% and 22,1%, respectively, well above minimum capital requirements;
- the liquidity position of the Bank with significant liquidity buffer and LCR ratio at 366%;
- the significant improvement in asset quality and reduction of stock of property and NPEs;
- the close monitoring of the lending portfolio under the current operating environment.

The Bank concluded that there are no material uncertainties which could cast significant doubt over the Bank's ability to continue as a going concern for at least the next 12 months from the date of approval of the Consolidated Financial Statements for the year ended 31 December 2023.

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 41 of these consolidated financial statements for the year ended 31 December 2023.

As explained in Note 41 of 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 and the Audit committees which assess the adequacy of the risk management framework and the system of internal controls of the Group respectively.

Environmental, Social, Governance (ESG) considerations
The Group is committed to operate in an economically, socially and environmentally sustainable manner, and considers it of utmost importance to adopt the necessary changes in order to align its strategy and operations with the key areas of the ESG agenda.

In that context, the Group has established an ESG Steering Committee and an ESG Unit. The Committee's main responsibility is to assist the Board of Directors in overseeing the development and implementation of the Group's general strategy with respect to ESG matters. The Committee also recommends policies, practices and disclosures and advises the Board of Directors on the effective management of ESG risks. The Committee is composed of members of the Senior Management of the Group and is chaired by an Executive Director of the Board. The ESG Unit is responsible for the coordination and implementation of actions to achieve alignment with the Group's ESG strategy.

In 2022 the Group has established an ESG working plan with purpose to address regulatory expectations on four key areas: Strategic Planning, Governance, Risk Management, and Data & Disclosures. The working plan addresses the regulatory expectations described in the ECB's Guide on climate-related and environmental risks. Additionally, it incorporates all remaining ESG factors, creating an integrated approach towards sustainable development. The working plan has been approved by the Board of Directors and its implementation is monitored jointly by the Board of Directors and the ESG Steering Committee.

Within 2023 the Group has issued its third Corporate Sustainability Report for the year 2022, which is available on its website, highlighting the principles of transparency regarding its actions. The Report aims to present the strategy, activities, practices and results achieved, in the Pillars of Economic Performance, Environment, People and Society, within the context of a strong governance framework.

Environmental Pillar
The Group's environmental goal is setting specific targets for its decarbonization, raising awareness within its stakeholder groups, and designing and developing products to protect the environment and improve the use of natural resources.

Environmental, Social, Governance (ESG) considerations (continued)

Environmental Pillar (continued)
In support of its customers' green transition, the Group finances renewable energy projects and offers four environmentally-friendly loan products: the EcoLogic home (for house renovations with purpose to improve the energy efficiency of the primary or holiday home), the EcoLogic consumer (for the purchase of photovoltaic and other energy-saving systems), the EcoLogic FastAuto (for the purchase of electric or hybrid vehicles) and the EcoLogic Business (addressed to companies that wish to upgrade the energy efficiency of their office buildings. Moreover, the Group's debit and credit cards are made from biodegradable materials.

The Group is currently implementing a solution for the assessment of business entities on their ESG performance which will also result in a development plan to support customers in their ESG transition.

As part of its ESG working plan, the Group estimated the Scope 1 and Scope 2 greenhouse gas (GHG) emissions that relate to its own operations and is designing a strategy for their reduction. The Group has proceeded with a number of actions in order to contribute to the carbon reduction, such as installation of a photovoltaic system and an electric vehicle charging station in its headquarters, increase of waste recycling, reduction of paper use. A number of other related initiatives are underway. Furthermore, the Group has entered into an agreement for the purchase of electricity from Renewable Energy Sources. The Group also began estimations of its Financed Scope 3 GHG emissions and is planning to design and implement a strategy for their reduction.

Part of the Group's training strategy is to increase awareness of ESG matters. Within this context, it has facilitated attendance to external seminars and training courses as well as organised, internal training sessions for the members of the Board of Directors, Senior Management and employees.

Social Pillar
The Group continues to actively support Europa Donna Cyprus as a strategic partner. For 14 consecutive years, the Group has been co-organising the Pink Silhouettes March, an initiative that aims to raise public awareness on matters related to breast cancer or gynecological cancer and empower women to fight the disease. The Group also systematically sponsors and supports several non-governmental organisations.

Within the framework of supporting employees and stakeholders, the Group remains focused in the continuous learning and development of its employees, with high quality training sessions being offered across the Group via traditional and modern delivery methods.

The 'We Care' initiative is part of the Group's actions to support a better work-life balance for its employees. The initiative provides, inter alia, 26 weeks fully paid maternity leave, 3 weeks fully paid paternity leave, educational leave, gift vouchers for newlyweds and new parents. Moreover, the Group continues to offer the 'Employee Assistance Programmes', which provide free guidance and counselling to employees by trained professionals on a 24/7 basis. Additionally, it organises workshops for the children of employees, and volunteering events such as blood donations and beach cleaning activities.

Governance Pillar
Transparency, credibility, accountability and security are the fundamental corporate governance principles in the contemporary corporate environment. These provide the framework for the achievement of the Group's objectives, reflecting the Group's values and safeguarding the interests of the shareholders.

An inclusive aim of the Group's internal regulations is to provide transparency and efficiency to the current governance system and to determine the rules of sound and responsible administration, in order to strengthen the confidence of shareholders, employees and customers towards the Group.

The Board of Directors is sufficiently diverse and reflects an adequately broad range of experiences to facilitate a variety of opinions and critical challenge, while also having suitable collective knowledge, skills and experience to be able to understand the Group's activities, including the main risks.

The Group aims at achieving at least 33% women representation in the Board of Directors by 2026. As at 31 December 2023, the women representation in the Board of Directors was 29%. At Senior Management level, there was a 38% representation of women, as at 31 December 2023.

Board of Directors
The members of the Board of Directors of the Bank during the year 2023 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 21 February 2023, Mr. Konstantinos Ioannou was appointed as Independent Non-Executive Director. He resigned on 28 February 2023 following his appointment as a Minister of Interior.

On 5 December 2023, the Board of Directors accepted the resignation of Mr. Andreas Vassiliou as Independent Non-Executive Vice Chairman, following expiration of a consecutive period of 9 years of independent service.

On 5 December 2023, Mr. Bassam Najib Diab was appointed as Non-Executive Vice Chairman.

The remuneration of the Board of Directors is disclosed in Note 46 of the consolidated financial statements.

Events after the reporting date
The events after the reporting date are disclosed in Note 47 of the consolidated financial statements.

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

15 April 2024

Consolidated Financial Statements

Consolidated Income Statement
for the year ended 31 December 2023

	Note	2023 €000	2022 €000
Interest income	7	95.285	54.744
Income similar to interest income	7	1.456	875
Interest expense	7	(21.951)	(4.382)
Net interest income		**74.790**	**51.237**
Fee and commission income	8	17.436	18.771
Fee and commission expense	8	(1.643)	(1.877)
Net fee and commission income		**15.793**	**16.894**
Other income	9	2.450	5.560
Net gain/(loss) on financial instrument transactions	10	2.153	(816)
Gain/(loss) on derecognition of financial assets measured at amortised cost	21	2.056	(193)
Total net income		**97.242**	**72.682**
Staff expenses	11	(34.107)	(27.779)
Other operating expenses	12	(16.169)	(23.474)
Depreciation and amortisation	13	(5.298)	(3.701)
Special levy on deposits and other levies/contributions	12	(4.302)	(4.120)
Total operating expenses		**(59.876)**	**(59.074)**
Operating profit before impairment losses		**37.366**	**13.608**
(Impairment)/reversal of impairment on financial assets	14	(3.354)	33
Impairment losses on non-financial assets	14	(3.332)	(3.013)
Write-off of intangible assets	28	-	(711)
Profit before share of results of associate		**30.680**	**9.917**
Share of loss of associate	23	-	(419)
Profit before tax		**30.680**	**9.498**
Income tax (charge)/credit	15	(265)	2.684
Profit for the year		**30.415**	**12.182**
Attributable to:			
Owners of the Bank		30.415	12.042
Non-controlling interests		-	140
Profit for the year		**30.415**	**12.182**

The notes on pages 22-122 form an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2023

	2023 €000	2022 €000
Profit for the year after tax	**30.415**	**12.182**
Other comprehensive income:		
Items that will not be reclassified in the income statement		
Property revaluation reserve		
Revaluation gain on own use properties	-	1.055
Deferred tax on revaluation held for own used properties (Notes 30 & 37)	52	199
Fair value reserve (equity instruments)		
Equity investments at fair value through other comprehensive income (FVOCI) – net change in fair value (Note 37)	(6)	63
Other comprehensive gain for the year after tax	**46**	**1.317**
Total comprehensive income for the year	**30.461**	**13.499**
Attributable to:		
Owners of the Bank	30.461	13.232
Non-controlling interests	-	267
Total comprehensive income for the year	**30.461**	**13.499**

The notes on pages 22-122 form an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2023

	Note	31 December 2023 €000	31 December 2022 €000
Assets			
Cash and balances with central banks	16	984.567	782.631
Placements with other banks	17	22.720	21.943
Derivative financial instruments	18	4.906	1.305
Financial assets at fair value through profit or loss	19	6.509	12.907
Financial assets at fair value through other comprehensive income	20	6.389	6.395
Debt securities	21	557.028	585.409
Loans and advances to customers	22	933.421	1.090.667
Investment in associate company	23	186	186
Other assets	24	22.750	17.730
Investment property	25	24.967	19.850
Stock of property	26	119.808	140.528
Property and equipment	27	31.911	32.898
Intangible assets	28	7.664	9.507
Deferred tax asset	30	2.082	4.192
Total assets		**2.724.908**	**2.726.148**
Liabilities			
Amounts due to other banks and deposits from banks	31	24.517	13.134
Funding from central banks	32	204.910	296.502
Derivative financial instruments	18	4.074	139
Deposits and other customer accounts	33	2.154.801	2.111.912
Subordinated liabilities	34	16.459	16.463
Debt securities in issue	34	32.746	21.379
Other liabilities	35	51.329	58.646
Deferred tax liability	30	1.971	4.297
Total liabilities		**2.490.807**	**2.522.472**
Equity			
Share capital	36	23.625	23.625
Share premium	36	155.383	155.383
Fair value reserve	37	2.316	2.270
Retained earnings and other reserves	37	52.777	22.398
Total equity		**234.101**	**203.676**
Total equity and liabilities		**2.724.908**	**2.726.148**

The notes on pages 22-122 form an integral part of the consolidated financial statements.

On 15 April 2024, the Board of Directors of AstroBank Public Company Limited approved these consolidated financial statements for issue.

Mr. Michalis Sarris — Chairman

Mr. Aristidis Vourakis — Chief Executive Officer

Mrs. Popi Stylianou — Chief Financial Officer

Consolidated Statement of Changes in Equity
for the year ended 31 December 2023

	Share Capital (Note 36) €000	Share Premium (Note 36) €000	Fair value Reserve (Note 37) €000	Retained earnings (Note 37) €000	Total €000	Non-controlling interests €000	Total Equity €000
Balance at 1 January 2022	**23.625**	**155.383**	**1.081**	**10.350**	**190.439**	**3.093**	**193.532**
Total comprehensive income for the year							
Profit for the year	-	-	-	12.042	12.042	140	12.182
Other comprehensive income for the year	-	-	1.189	-	1.189	128	1.317
Total comprehensive income for the year	**-**	**-**	**1.189**	**12.042**	**13.231**	**268**	**13.499**
Disposal of non-controlling interests	-	-	-	140	140	(3.361)	(3.221)
Special defence contribution on deemed dividend distribution	-	-	-	(134)	(134)		(134)
Transactions with shareholders	**-**	**-**	**-**	**6**	**6**	**(3.361)**	**(3.355)**
Balance as at 31 December 2022	**23.625**	**155.383**	**2.270**	**22.398**	**203.676**	**-**	**203.676**
Balance at 1 January 2023	**23.625**	**155.383**	**2.270**	**22.398**	**203.676**	**-**	**203.676**
Total comprehensive income for the year							
Profit for the year	-	-	-	30.415	30.415	-	30.415
Other comprehensive income for the year	-	-	46	-	46	-	46
Total comprehensive income for the year	**-**	**-**	**46**	**30.415**	**30.461**	**-**	**30.461**
Special defence contribution on deemed dividend distribution	-	-	-	(36)	(36)	-	(36)
Transactions with shareholders	**-**	**-**	**-**	**(36)**	**(36)**		**(36)**
Balance as at 31 December 2023	**23.625**	**155.383**	**2.316**	**52.777**	**234.101**	**-**	**234.101**

The notes on pages 22-122 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2023

	Notes	2023 €000	2022 €000
Cash flows from operating activities			
Profit for the year before tax		30.680	9.498
Adjustments for:			
Depreciation and amortisation	13	5.298	3.701
Profit on disposal of stock of property	9	(126)	(2.924)
Fair value (gain)/loss on financial assets at fair value through profit or loss	19	(383)	1.967
(Gain)/loss on derecognition of financial assets measured at amortised cost	21	(2.056)	193
Share of loss of associate company	23	-	419
Fair value gain on revaluation of investment property	9	(413)	(1.054)
Loss from revaluation of debt securities designated as fair value hedges	21	(202)	1.315
Servicer's settlement fees	12	-	7.598
Finance lease interest	29	408	373
Impairment of stock of property	26	3.327	893
Write-off of intangibles	28	-	711
Foreign exchange difference on financial assets at fair value through profit or loss and at amortised cost	19,21	3.381	(9.405)
Amortisation of debt securities	21	(1.774)	4.623
Dividend income from equity investments	9	(543)	(549)
Distribution from fund participation	9	(139)	(431)
Interest/(Negative interest) on funding from central banks	7	8.975	(2.159)
Interest on subordinated liabilities	7	1.312	1.312
Interest on debt securities in issue	7	1.576	-
Provision for/(reversal of) expected credit loss to cover credit risk on loans and advances to customers	14	3.994	(5.744)
Reversal of expected credit loss to cover credit risk on contractual commitments and guarantees	14	(221)	(497)
Reversal of/(provision for) expected credit loss to cover credit risk on other financial instruments	14	(420)	6.209
		52.674	**16.049**
Changes in:			
Loans and advances to customers (Note 1 below)		134.329	5.380
Deposits from and amounts due to other banks and customer accounts		54.272	(82.876)
Mandatory deposits with the Central Bank of Cyprus		(4.845)	1.602
Other assets		(4.408)	8.349
Net position in derivative financial instruments		334	(1.323)
Stock of property	9,26	33.862	36.357
Other liabilities		(8.970)	(35.769)
Net cash generated/(used in) from operations		**257.250**	**(52.231)**
Cash flows from investing activities			
Purchases of property and equipment	27	(1.148)	(2.000)
Purchases of intangible assets	28	(1.444)	(2.326)
Purchases of financial assets at fair value through profit and loss	19	(27.038)	(6.916)
Proceeds on disposal of financial assets at fair value through profit and loss	19	34.135	4.388
Purchases of debt securities at amortised cost	21	(252.110)	(549.685)
Proceeds from disposal/redemption of debt securities at amortised cost	21	280.637	907.321

Consolidated Statement of Cash Flows
for the year ended 31 December 2023

	Notes	2023 €000	2022 €000
Proceeds from distribution from fund participation	9	139	353
Dividend received	9	543	549
Acquisition of subsidiary (note 2 below)		-	(13.000)
Net cash generated from investing activities		**33.714**	**338.684**
Cash flows from financing activities			
Repayment of funding from central banks	32	(100.000)	(200.000)
Interest on funding from central banks		(567)	3.525
Issue of debt securities	34	31.936	21.379
Repayment of debt securities in issue	34	(21.058)	(3.167)
Interest on debt securities in issue		(1.091)	-
Interest on subordinated bond		(1.312)	(866)
Lease payments	29	(1.004)	(1.005)
Net cash used in from financing activities		**(93.096)**	**(180.134)**
Net increase in cash and cash equivalents		**197.866**	**106.319**
Cash and cash equivalents			
At the beginning of the year	16	783.683	677.364
Net increase in cash and cash equivalents		197.868	106.319
At the end of the year	16	**981.551**	**783.683**

The notes on pages 22-122 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 €18.923 thousand (2022: €43.063 thousand) via the execution of debt for asset swaps in settlement for loans. These are not included in cash flows from operating activities as they do not constitute cash movements.

(2) Acquisition of ex-Quant business in 2022

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 was obtained during the year 2022.

1. CORPORATE INFORMATION

Country of incorporation

AstroBank Public Company Limited (the "Bank") was incorporated in Cyprus on 29 December 2006 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.

Principal activities

The principal activities of the Bank during the year continued to be the provision of banking and financial services, mainly through its branch network. As at 31 December 2023, the branch network included 14 branches.

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.

In March 2023, the operations of the Moscow Representative Office were terminated following completion of the Bank's application, to the relevant authorities, to withdraw its accreditation.

Consolidated financial statements

On 15 April 2024 the Board of Directors of AstroBank Public Company Limited authorised for issue the Consolidated Financial Statements (the "Financial Statements") for the year ended 31 December 2023.

2. MATERIAL ACCOUNTING POLICY INFORMATION

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 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 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 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 45.

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2023. 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 gain or loss is recognised in income statement.

The details of the subsidiaries whose results are consolidated in these consolidated financial statements are disclosed in Note 40.

2. MATERIAL ACCOUNTING POLICY INFORMATION (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. The adoption of new and amended standards and interpretations as explained in Note 2.3.1 did not have an impact on the Group.

2.3.1 Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations

As from 1 January 2023, the Group adopted all the changes to International Financial Reporting Standards (IFRSs), as adopted by the EU, which are relevant to its operations.

IFRS 17: Insurance Contracts
The standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Group does not issue contracts in scope of IFRS 17; therefore, its application does not have an impact on the Group financial performance, financial position or cash flows. The standard and its amendments had no significant impact on the Group's consolidated financial statements.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)
The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had no significant impact on the Group's consolidated financial statements.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)
The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments had no significant impact on the Group's consolidated financial statements.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)
The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendments had no impact on the Group's consolidated financial statements because it is outside the scope of Pillar Two Mode Rules.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Accounting policies and changes in accounting policies and disclosures (continued)

2.3.1 Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (continued)

IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (Amendments)
The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The amendments had no impact on the Group's consolidated financial statements because it is outside the scope of Pillar Two Mode Rules.

2.4 Standards and Interpretations that are issued but not yet effective

2.4.1 Amendments issued, effective but not yet endorsed by the European Union

The following Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB"), are effective for annual periods beginning on 1 January 2023 but not yet endorsed by the European Union.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The Group expects these amendments to have no significant impact on the Group's consolidated financial statements.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The Group expects these amendments to have no significant impact on the Group's consolidated financial statements.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Standards and Interpretations that are issued but not yet effective

2.4.2 Standards, Amendments and interpretation issued but not yet effective and not early adopted

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 2023. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards, Amendments and Interpretations early.

IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure – Supplier Finance Arrangements (Amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU. The Group expects these amendments to have no significant impact on the Group’s consolidated financial statements.

IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity’s objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The Group expects these amendments to have no significant impact on the Group’s consolidated financial statements.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group expects this amendment to have no significant impact on the Group’s consolidated financial statements.

2. MATERIAL ACCOUNTING POLICY INFORMATION (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 operating 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.

If the Group and acquiree were parties to a pre-existing contractual relationship, this is accounted for separately from the business combination and, if applicable, leads to the recognition of a gain or loss for the amount of the consideration transferred to the acquiree which effectively represents a 'settlement' of the pre-existing relationship. The amount of the gain or loss is measured at the lesser of (a) the favorable/unfavorable contract position and (b) any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavorable.

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.

After application of the equity method, the Group determines whether it is necessary to recognisean impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of income statement.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.6 Investment in associate (continued)

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.

2.7 Foreign currency translation

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 Group operates.

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 (losses)/gains on financial instrument transactions and disposal of subsidiaries and associates").

2.8 Turnover
Turnover comprises of interest income, fee and commission income, net gains or losses on disposal and revaluation of foreign currencies and financial instruments and other income. Group turnover also includes net insurance income from insurance brokerage insurance services.

2.8.1 Interest income and interest expense

2.8.1.1 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 recognised through in "Impairment on financial assets" 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 "Income similar to interest income".

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.8.1 Interest income and interest expense (continued)

2.8.1.1 Interest income and other interest income (continued)

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.

2.8.1.2 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.

2.8.2 Fee and commission income and expense

2.8.2.1 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.

The Group applies a five-step revenue recognition model to recognise commissions and fee income, under which the performance obligations as well as the timing of their satisfaction are identified and income is recognised when control of goods and services is transferred, i.e. the contractual performance obligation to the client has been satisfied. The amount of income is measured on the basis of the contractually agreed transaction price and is allocated to the performance obligations defined in the contract.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.8.2 Fee and commission income and expense

2.8.2.2 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.

2.8.3 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'.

2.8.4 Dividend income

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

2.8.5 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 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.

Current income tax
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 Bank 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 Bank establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax
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 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.9 Tax (continued)

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.

2.10 Financial instruments – initial recognition

2.10.1 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.

2.10.2 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.

2.10.3 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.

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)).

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.11 Classification and measurement of financial assets and liabilities

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.

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.11 Classification and measurement of financial assets and liabilities (continued)

2.11.1 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 (loss)/gain on financial instrument transactions".

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

2.11.2 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. 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 on financial assets".

2.11.3 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 income statement.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.11 Classification and measurement of financial assets and liabilities (continued)

2.11.4 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 statement of financial position 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.

2.11.5 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.

- 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 (loss)/gain on financial instrument transactions" in the income statement.

Interest income is included in the caption 'Interest income' 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 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.

2.11.6 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 income statement. 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.11 Classification and measurement of financial assets and liabilities (continued)

2.11.7 Other financial liabilities

Other financial liabilities include "Deposits and other customer accounts", "Amounts due to other banks and deposits from banks", "Funding from central banks", "Debt securities in issue and subordinated liabilities" 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.

2.12 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.

2.13 Derecognition of financial assets and financial liabilities

2.13.1 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.

2.13.2 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 income statement.

2.14 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.14 Forborne and modified loans (continued)

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.

2.15 Impairment of financial assets

2.15.1 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 income statement 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 "impairment on financial assets".

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.15 Impairment of financial assets (continued)

2.15.1 Overview of ECL principle (continued)

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 and POCI assets. A risk-based approach is used on the selection criteria of the individually assessed population of 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 etc.).

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, portfolio type and industry sector.

2.15.2 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.15 Impairment of financial assets (continued)

2.15.2 Significant increase in credit risk (continued)

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.

2.15.3 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).

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.15 Impairment of financial assets (continued)

2.15.3 Credit impaired and definition of default (continued)

When a loan 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 2.16.2 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 'impairment on financial assets'.

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.

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 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 three-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 twelve month probation period."

2.15.4 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.

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.15 Impairment of financial assets (continued)

2.15.5 Inputs into measurement of ECLs

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

a) exposure at default (EAD).
b) Probability of default (PD);
c) loss given default (LGD); and

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

a. Exposure at default (EAD)

EAD represents the expected exposure in the event of a default during the life of a financial instrument. EAD methodology is differentiated in the following categories: revolving 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.

b. 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:

- Step 1: Use historic default rates to estimate the through the cycle probabilities of default;
- Step 2: 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;
- Step 3: 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.

c. 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.15 Impairment of financial assets (continued)

2.15.6 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.

2.15.7 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. When favourable changes result in higher recoverable amount than the fair value of the loan on initial recognition, e.g. additional collateral or favourable changes in collateral value or changes in expected cash flows, the impairment gain is recognised in the income statement by adjusting the gross carrying amount of the loan. POCI remain a separate category until derecognition.

2.16 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 "Impairment on financial assets".

2.17 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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.

2.18 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". 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".

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 recognised immediately in the consolidated income statement.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.19 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.

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.

2.20 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 income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The IBR used 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.20 Leases - The Group as a lessee (continued)

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.

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 income statement, 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.

2.21 Leases - The Group as lessor

2.21.1 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 statement of financial position 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.

2.21.2 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. Rental income is recognised in "Other income" in the consolidated income statement.

2.22 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 3-8 years.

For intangible assets identified in a business combination that represent a reacquired right, an intangible asset is recognised and measured on the basis of the remaining contractual term of the related contract excluding any renewals.

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.23 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. Fair value is determined from market-based valuations undertaken by professionally qualified valuers periodically every three to five years (but more frequent revaluations may be performed where there is indication for impairment or significant and volatile movement in values). 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 income statement, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, 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 cost less accumulated depreciation and accumulated impairment losses. 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.

2.24 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.

2.25 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

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.25 Investment property (continued)

"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.

2.26 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 non-financial assets" in the consolidated income statement.

2.27 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.

2.28 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.

2.29 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.

2.30 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 'impairment on financial assets'.

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 'impairment on financial assets' in the consolidated income statement.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.30 Financial guarantees, letters of credits and undrawn loan commitments (continued)

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

2.31 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.

2.32 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 expenses. 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.

Voluntary redundancy costs are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits.

2.33 Share capital

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

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.

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.

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 a dividend, by the Bank's Board of Directors.

3. COMPARATIVES

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

Change in accounting policy
During 2023, the Group has applied a change in the IFRS 9 Expected Credit Loss policy. The change in accounting policy specifically relates to the Purchased Credit Impaired (POCI) loans. When favourable changes result in higher recoverable amount than the fair value of the loan on initial recognition, e.g., additional collateral or favourable changes in collateral value or changes in expected cash flows, the impairment gain is recognised in the income statement by adjusting the gross carrying amount of the loan.

The Group previously used to recognise such changes as negative ECL. The change did not have any impact in the Equity of the Group.

Impact on comparative figures from retrospective application:

Loan and advances to customers (Note 22)

	Restated 2022 €000	As previously disclosed 2022 €000
Advances to individuals	358.520	355.667
Advances to legal entities:		
Large corporate entities and organisations	200.941	200.941
Small and medium size enterprises (SMEs)	648.906	646.505
Advances to customers – gross	**1.208.367**	**1.203.113**
Allowance for ECL	**(117.700)**	**(112.446)**
Advances to customers – net	**1.090.667**	**1.090.667**

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 capital and liquidity position of the Group and the current and future economic developments in order to make projections for future economic conditions of the environment in which it operates, taking also into consideration, the current and future operating environment (Note 5) and the Group's Business Plan approved by the Board.

The main macroeconomic developments that could cause uncertainties regarding the application of this principle relate to the challenges on the evolution of inflation and its decline at the long-term target rate, that will also trigger the timing and pace of the interest rate cuts by the central banks. Management closely monitors the developments and the impact they may have on the Group's operations, business and financial performance, including liquidity and capital.

Based on the above and taking into account:

- the capital position, enhanced significantly from organic capital generation over the last years, with Total capital adequacy and CET1 ratios of 23,7% and 22,1%, respectively, above minimum capital requirements;
- the liquidity position of the Bank with significant liquidity buffer and LCR ratio at 366%;
- the significant improvement in asset quality and reduction of stock of property and NPEs;
- the close monitoring of the lending portfolio under the current operating environment.

The Bank concluded that there are no material uncertainties which could cast significant doubt over the Bank's ability to continue as a going concern for at least the next 12 months from the date of approval of the consolidated financial statements for the year ended 31 December 2023.

5. OPERATING ENVIRONMENT

The prolonged geopolitical instability, such as the war between Russia and Ukraine and the new war in Israel which created instability in Middle East, increases uncertainty in the global and local economic environment.

The Cypriot economy has proved to be resilient despite the challenging international environment. Real GDP growth in Cyprus slowed down to 2,5% in the first three quarters of 2023 (y-o-y) compared to 5,8% for the same period of 2022, mainly due to a lower external demand for non-tourism services. For the whole of 2023, economic activity is expected to grow by 2,4%. In 2024 and 2025, real GDP is expected to grow by 2,8% and 3,0% respectively.

Domestic demand is expected to continue, being the main driver for real GDP growth in 2024 and 2025, as automatic wage indexation for around half of the employees (covered by collective agreements in the public and private sector) holds up their purchasing power. Large investment projects in real estate, healthcare, transport and tourism, partly supported by the Recovery and Resilience Fund, are also expected to boost growth.

Tourist arrivals continued its rebound in 2023 with arrivals reaching 3.845 thousand visitors reflecting a remarkable 21,9% year on year increase, almost reaching pre-pandemic levels. The receipts increased by 22,6% reaching €3 billion for the year.

According to the Cyprus Statistical Service, during the fourth quarter of 2023 the unemployment rate stood at 5,9% compared to 6,8% average in 2022. Private consumption remained robust, supported by real wage increases and continued employment growth of 1,6%.

The Harmonised Index of Consumer Prices (HICP) inflation slowed down to 3,9% in 2023, from 8,1% in 2022, mainly reflecting lower energy prices. HICP inflation is set to moderate to 2,0% in 2024 and to 2,0% in 2025 (as per Cyprus Ministry of Finance), in line with an assumed continued expected decline in prices for energy and other commodities.

The sovereign risk ratings of the Cypriot government have improved significantly in recent years, reflecting reduced banking sector risks, improved economic resilience, fiscal outperformance including significant improvements in debt dynamics. In December 2023, Fitch Ratings affirmed Cyprus long-term foreign currency issuer default rating at ’BBB' and revised its outlook from stable to positive. In September 2023, Moody's Investors Service upgraded the long-term issuer and senior unsecured ratings of the Cypriot Government to Baa2 from Ba1. The outlook was revised to stable from positive. In September 2023 S&P Global Ratings revised its outlook on Cyprus to positive from stable 2023 and affirmed Cyprus long-term local and foreign currency sovereign ratings at BBB.

The European Central Bank (ECB) decided to keep the three key ECB interest rates unchanged during the latest Governing Council meeting on 11 April 2024. The ECB deposit facility rate now stands at 4,0%, compared to the -50 basis points observed in July 2021. The recent market expectations are that the ECB will start cutting interest rates mid 2024 with further declining in 2025 and as long as the long-term inflation target is achieved. Federal Reserve is expected to follow similar approach for US Dollar interest rates.

The future effects of the current economic environment are difficult to predict at this stage, therefore management’s current expectations and estimates could differ from actual results. The management will continue to monitor the situation closely, taking all necessary measures to minimise the impact on its financial position and to manage the related risks.

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

6.1 Classification of financial assets

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 assets on its business model assessment.

In the event of disposals, the Group considers information about past sales and expectations about future sales, including the frequency, value and nature of such sales, when determining the objective of the business model. Sales or expected sales of financial assets may be consistent with a held-to-collect business model if those sales are incidental to the business model.

The following are examples of sales which are incidental to the held-to-collect business model:

The sales are due to an increase in the credit risk of a financial asset. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a held-to-collect objective. This is because the credit quality of financial assets is relevant to the entity’s ability to collect contractual cash flows.

- The sales are infrequent (even if they are significant) or are insignificant individually and in aggregate (even if they are frequent).
- The sales take place close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

The Group is assessing the significance of the amount of sales by comparing the portion sold with the overall size of the portfolio subject to the 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:

Assessment of significant increase in credit risk (SICR)
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 or when macroeconomic variables have extreme values that do not correspond to those applied by other Banks in the market. These are reviewed and adjusted if considered necessary by the Group’s Management and endorsed by the Group Provisions Committee.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

6.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

During 2023, the Cypriot economy has proved to be resilient despite the challenging international environment. Growth remained strong as GDP grew by 2,5% in the first three quarters of 2023, while unemployment remained stable. The positive GDP growth rate was mainly attributed to the sectors of tourism (hotels and restaurants), Transport & Storage, Information & Communication and Wholesale & Retail Trade.

In 2024 and 2025, real GDP is expected to grow by 3,4% and 3,0% respectively (as per Cyprus Ministry of Finance), slightly stronger than forecast in autumn for both years. Demand for tourism services continued its rebound in 2023 with arrivals increasing by 20,1%, almost reaching pre-pandemic levels (as per European Commission economic forecast for Cyprus). The arrivals of tourists in 2023 totalled 3.846 thousand compared to 3.201 thousand in 2022 and 3.900 thousand in 2019 (as per Cyprus Statistical Service).

HICP inflation slowed down to 3,9% in 2023 (as per Cyprus Statistical Service), from 8,1% in 2022, mainly reflecting lower energy prices. HICP inflation is set to moderate to 2,0% in 2024 and to 2,0% in 2025 (as per Cyprus Ministry of Finance), in line with an assumed continued expected decline in prices for energy and other commodities.

During 2023, 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.

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%, applied haircuts on real estate collaterals are increased by 10% and the timing of recovery of collaterals is increased by 1 year. Under the optimistic scenario no increase was applied to operational cash flows, applied haircuts are decreased by 5% and the timing of recovery of collaterals is decreased by 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% 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 The corresponding haircuts for the pessimistic scenario are increased by 10% and for the optimistic scenario are decreased by 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 and are capped to 0% in case of any future projected increase for all scenarios and to all loans and advances to customers, whereas any future projected decrease is taken into account.

For all real estate collaterals, the following haircuts were applied to the indexed open market values as at 31 December 2023 and 31 December 2022:

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

6.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

31 December 2023 and 31 December 2022	Average haircut for urban locations	Average haircut for rural locations
Residential Real Estate (Completed)	7%	13%
Residential Land	14%	19%
Commercial Real Estate (Completed)	14%	21%
Commercial Land	16%	21%
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%

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

The table below indicates the most significant macroeconomic variables as well as the scenario weights used by the Group as at 31 December 2023 and 31 December 2022 respectively.

31 December 2023

Year	Scenario	Weight	Real GDP (% change)	Unemployment-rate (% of labour force)	Industrial production (% change)	Residential Price Index (average change %)	Consumer Price Index (average change %)
2024	Baseline	50%	3,19%	6,08%	4,85%	3,70%	2,05%
	Optimistic	25%	4,53%	6,08%	6,77%	5,00%	2,25%
	Pessimistic	25%	-1,36%	8,80%	-1,72%	-1,10%	1,45%
2025	Baseline	50%	2,45%	6,00%	3,41%	6,38%	1,33%
	Optimistic	25%	2,80%	5,86%	3,60%	8,66%	1,48%
	Pessimistic	25%	-0,25%	10,22%	0,70%	-1,65%	0,35%
2026	Baseline	50%	1,65%	5,91%	2,02%	10,82%	1,61%
	Optimistic	25%	1,45%	5,65%	1,61%	11,17%	1,65%
	Pessimistic	25%	3,60%	9,11%	5,55%	9,28%	1,45%

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

6.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

31 December 2022

Year	Scenario	Weight	Real GDP (% change)	Unemployment rate (% of labour force)	Industrial production (% change)	Residential Price Index (average change %)	Consumer Price Index (average change %)
2023	Baseline	50%	2,05%	7,75%	-0,48%	6,06%	4,21%
	Optimistic	25%	3,38%	7,75%	1,17%	7,39%	4,27%
	Pessimistic	25%	-2,44%	10,47%	-6,16%	2,96%	1,69%
2024	Baseline	50%	3,07%	7,29%	3,04%	5,94%	2,24%
	Optimistic	25%	3,43%	7,14%	3,21%	8,21%	2,13%
	Pessimistic	25%	0,36%	11,54%	0,55%	-1,41%	0,05%
2025	Baseline	50%	2,72%	6,91%	2,50%	8,62%	2,02%
	Optimistic	25%	2,52%	6,66%	2,14%	8,96%	2,02%
	Pessimistic	25%	4,69%	10,18%	5,69%	2,77%	1,60%

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 2022: 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.

Sensitivity analysis
For the purposes of providing an indication of the change in accumulated impairment losses on loans and advances, the Bank has performed sensitivity analysis on certain assumptions used in the loan provisioning methodology. The impact on the provisions for impairment of loans and advances is presented below:

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

6.2 Calculation of expected credit losses (continued)

Sensitivity analysis (continued)

Change in key assumptions	Increase/(decrease) on provisions for impairment of loans and advances €000
Increase in liquidation period by 1 year	2.321
Decrease in liquidation period by 1 year	(1.872)
Increase in collateral liquidation haircut by 5%	2.235
Decrease in collateral liquidation haircut by 5%	(1.349)
Change in the scenario weights (50% base/30% pessim. /20% opt.)	826
Change in the scenario weights (50% base/20% pessim. /30% opt.)	(878)

Overlays
A management overlay was introduced by applying a post model adjustment in the collectively assessed performing population. The post model adjustment applied, resulted in an increase in the coverage ratios of the stage 1 and stage 2 populations in response to the inflationary environment affecting the economy. The impact, following the management overlay, resulted into an additional provision on loans and advances of approximately €1.800 thousand.

For the calculation of expected credit loss on the value of loans and advances to customers, judgment is involved regarding the amount and timing of estimated future cash flows. The estimated future cash flows include any expected cash flows from the borrower's operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable. The timing of these cash flows is estimated on a case-by-case basis.

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.

6.5 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

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

6.5 Income taxes (continued)

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

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.

Valuations are undertaken by professionally qualified valuers periodically every three to five years (but more frequent revaluations may be performed where there is indication for impairment or significant and volatile movement in values).

6.7 Fair value of investment properties

The Bank's accounting policy for investment property requires that it is measured at fair value. Valuations for investment property are carried out every year by qualified valuers by applying valuation models recommended by the internationally accepted valuation standards.

In arriving at their estimates of the fair values of properties, the valuers used their market knowledge and professional judgement and do not rely solely on historical transactional comparable information, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. 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.

6.8 Net realisable value of stock of property

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 on an annual basis by external valuers. However, quantitative thresholds are applied for the measurement of lower of cost and net realisable value of insignificant in value properties, where the Group reaffirms or adjust the value of the properties using external market analysis, external valuers' consultation, indexations and other reliable information.

6.9 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.

6.10 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)

6.11 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.

Low value assets
The Group has exercised judgement in determining the threshold of low value assets which was set at €5 thousand.

6.12 Provisions for pending litigation, claims, regulatory and other matters

The accounting policy for provisions for pending litigation, claims, regulatory and other matters is described in Note 2.35. Judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigation, claims, regulatory and other matters usually require a higher degree of judgement than other types of provisions. For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 38.

6.13 Recognition of other intangible assets on acquisition of a business

In 2022, the Group accounted for the acquisition of a business from ex-Quant using the acquisition method in 2022. In accordance with IFRS 3, all identifiable assets and liabilities acquired have to be measured at their fair value at the time of acquisition. These fair values also represent the amounts upon initial consolidation. IFRS 3 specifies that as part of a business combination, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer’s recognised or unrecognised assets.

A pre-existing relationship may be a contract that the acquirer recognises as a reacquired right. If the contract includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the business combination, a gain or loss for the effective settlement of the contract. If the business combination in effect settles a contractual pre-existing relationship, the acquirer recognises a gain or loss, measured as the lesser of (i) the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items and (ii) the amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable. The determination of the fair value for the reacquired rights and the settlement of the pre-existing relationship, is subject to judgements, including among others, the determination to future cash flows for the remaining term of the contract from the perspective of the average market participant based on proprietary knowledge of other similar contracts, the projected disposals of REOs timeframe and discount rates.

7. NET INTEREST INCOME

	2023 €000	2022 €000
Interest income		
Financial assets at amortised cost:		
Loans and advances to customers	57.126	42.287
Debt securities	8.488	5.615
Placements with banks and central banks	29.633	2.859
Negative interest rates on customer deposits	38	1.824
Negative interest on funding from central banks	-	2.159
	95.285	**54.744**
Income similar to interest income		
Debt securities at fair value through profit or loss	671	369
Derivative financial instruments	785	506
	1.456	**875**
Interest expense		
Customer deposits	(9.583)	(1.423)
Due to other banks and central banks	(9.035)	(160)
Lease liabilities	(404)	(373)
Negative interest on placements with central bank and other banks	-	(1.025)
Subordinated liabilities	(1.312)	(1.312)
Debt securities in issue	(1.576)	(89)
Other interest expense	(41)	-
	(21.951)	**(4.382)**
Net interest income	**74.790**	**51.237**

The Group is operating only in Cyprus by providing banking and financial services.

8. NET FEE AND COMMISSION INCOME

	2023 €000	2022 €000
Fee and commission income		
Credit-related fees and commissions	5.166	5.165
Money transfer fees and commissions	4.151	4.600
Maintenance and administration fees	7.113	8.119
Private banking asset management fees	1.006	887
Total fee and commission income	**17.436**	**18.771**
Fee and commission expense		
Fees and commissions from banking operations	(1.349)	(1.495)
Private banking asset management fees	(294)	(382)
Total fee and commission expense	**(1.643)**	**(1.877)**
Net fee and commission income	**15.793**	**16.894**

9. OTHER INCOME

	2023 €000	2022 €000
Dividend from equity investments (Note 20)	543	549
Distribution from fund participation (Note 19)	139	431
Profit from disposal of stock of properties (Note 26)	126	2.924
Fair value gain on revaluation of investment property (Note 25)	413	1.054
Rental income from investment property and stock of property	1.034	368
Other income	195	234
Total	**2.450**	**5.560**

10. NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENT TRANSACTIONS

	2023 €000	2022 €000
Gain from foreign exchange	1.992	1.392
Gain from financial assets at FVTPL (Note 19)	210	834
Fair value loss on revaluation of bonds at FVTPL (Note 19)	(106)	-
Fair value gain on revaluation of shares classified at FVTPL (Note 19)	63	76
Fair value loss on fund participation classified at FVTPL (Note 19)	-	(3.131)
Revaluation of financial instruments designated as fair value hedges:		
Hedging instruments (Note 39)	196	1.315
Hedged items (Note 39)	(202)	(1.302)
Total	**2.153**	**(816)**

11. STAFF EXPENSES

	2023 €	2022 €
Salaries	23.315	22.852
Social insurance and other contributions	1.560	1.397
Retirement benefit cost for defined contributions plans	1.767	1.377
Other staff expenses	436	224
	27.078	**25.850**
Voluntary redundancy costs	7.029	1.929
Total	**34.107**	**27.779**

During 2023, the Group completed a voluntary staff exit plan through which 55 full-time employees were approved to leave at a total cost of €7.029 thousand (2022: 16 full-time employees at a total cost of €1.929 thousand).

The Group operates a defined contribution plan which provides for employer contributions on the employee gross salary and employee contributions of 3%-10% of their gross salary. The Bank's contributions are expensed as incurred and are included in staff expenses. The Bank has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Based on the Collective Agreement, the employers' contributions to the Provident Fund for 2023 was set at 9,0% for year 2023 (2022:8%) of the employees' gross salaries. This plan is managed by an Administrative Committee appointed by the members.

The number of persons employed by the Group as at 31 December 2023 was 392 permanent and 22 temporary (2022: 443 permanent and 22 temporary).

12. OTHER OPERATING EXPENSES

	2023 €000	2022 €000
IT expenditure	3.215	3.434
Legal fees (Note 38)	2.811	403
Professional fees	2.098	2.539
Premises related expenses	1.622	1.743
Buildings and other assets' maintenance cost	1.495	1.058
Regulatory fees	1.467	1.749
Operational expenses	1.294	1.564
Insurance expenses	648	727
Directors' fees (Note 46)	491	454
Marketing expenses	458	526
Other expenses	382	597
Staff Related expenses	188	180
	16.169	**14.974**
Servicer's administration fees (Note 23)	-	902
Servicer's settlement fees (Note 23)	-	7.598
Total operating expenses	**16.169**	**23.474**
Special levy on deposits on credit institutions in Cyprus	2.149	2.190
Contribution to Single Resolution Fund and other levies	965	1.000
Deposit Guarantee Fund (DGF)	1.188	930
Total Special levy on deposits and other levies/contributions	**4.302**	**4.120**

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

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.

12. OTHER OPERATING EXPENSES (continued)

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.

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

	2023 €000	2022 €000
Audit of the financial statements of the Bank and its subsidiaries	468	477
Other assurance services	119	-
Tax compliance and advisory services	61	43
Other non-audit services	5	75
Total	**653**	**595**

13. DEPRECIATION AND AMORTISATION

	2023 €000	2022 €000
Depreciation of property and equipment (Note 27)	1.243	1.434
Depreciation of right of use assets (Note 27)	768	969
Amortisation of intangible assets (Note 28)	3.287	1.298
Total	**5.298**	**3.701**

14. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND IMPAIRMENT OF NON-FINANCIAL ASSETS

	2023 €000	2022 €000
Impairment on financial assets		
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	(4.589)	4.457
(Provision for)/reversal of expected credit loss on loans and advances to customers due to write offs	(581)	780
Recoveries of loans and advances to customers previously written off	1.176	507
Reversal of expected credit loss to cover credit risk on contractual commitments and guarantees (Note 41.1.5)	221	497
Credit losses of other financial instruments		
(Provision for)/reversal of expected credit losses to cover credit risk on other financial assets (Note 21)	(190)	200
Fair value loss on remeasurement of previously held interest	-	(2.285)
Reversal of/(provision for) expected credit losses to cover credit risk on other receivables	609	(4.123)
	(3.354)	**33**
Impairment of non-financial assets		
Stock of property (Note 26)	(3.327)	(893)
Impairment of leasehold improvements	-	(2.120)
	(3.327)	**(3.013)**

15. INCOME TAX

	2023 €000	2022 €000
Corporation tax	417	221
Deferred tax credit (Note 30)	(152)	(2.905)
	265	**(2.684)**

The Bank and its subsidiaries are subject to income tax in Cyprus on taxable profits at the rate of 12,5% (2022: 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:

	2023 €000	2022 €000
Profit before tax	30.680	9.917
Tax calculated at the applicable tax rates	3.835	1.240
Income tax effect of:		
Expenses and other losses not deductible for tax purposes	1.800	2.957
Income and deductions not subject to tax	(639)	(2.070)
Tax losses utilised	(4.579)	(1.906)
Deferred tax credit	(152)	(2.905)
	265	**(2.684)**

16. CASH AND BALANCES WITH CENTRAL BANKS

	2023 €000	2022 €000
Cash	7.389	6.802
Mandatory deposits with Central Bank of Cyprus	25.736	20.891
Other balances with the Central Bank of Cyprus	946.970	747.716
Cheques in the process of clearing	4.472	7.222
Total	**984.567**	**782.631**

The Mandatory deposits and other balances with Central Bank of Cyprus credit rating as per Moody's, the international credit rating agency, is Baa2 and Ba1 as at 31 December 2023 and 31 December 2022 respectively.

The placements with central banks are classified as Stage 1.

There was no ECL allowance on balances with central banks for the years 2023 and 2022.

	2023 €000	2022 €000
Cash and cash equivalents		
Cash	7.389	6.802
Other non-obligatory balances	946.970	747.716
Cheques to be cleared	4.472	7.222
Current accounts (Note 17)	22.720	21.943
	981.551	**783.683**

17. PLACEMENTS WITH OTHER BANKS

	2023 €000	2022 €000
Current accounts	22.720	21.943
Total	**22.720**	**21.943**

The following table presents the placements with other banks categorised according to their credit rating as per Moody's, the international credit rating agency, as at 31 December 2023 and 31 December 2022.

	2023 €000	2022 €000
Credit rating A1	8.489	6.355
Credit rating A2		7.380
Credit rating B2	-	587
Credit rating Baa1	13.612	7.389
Credit rating Baa2	237	-
Credit rating Baa3	382	-
Unrated	-	232
	22.720	**21.943**

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 including not deliverable forward products.

- 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.

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

	Notional contract amount	Fair Value	
		Assets	Liabilities
	€000	€000	€000
31 December 2023			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	203.624	3.871	3.797
Currency swaps	86.016	12	277
Derivatives qualifying for hedge accounting			
Fair value hedges - interest rate swaps (Note 39)	5.000	1.023	-
Total derivative financial instruments		**4.906**	**4.074**

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Notional contract amount	Fair Value	
		Assets	Liabilities
	€000	€000	€000
31 December 2022			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	5.729	29	7
Currency swaps	89.093	50	132
Derivatives qualifying for hedge accounting			
Fair value hedges - interest rate swaps (Note 39)	5.000	1.226	-
Total derivative financial instruments		**1.305**	**139**

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 €000	2022 €000
Trading debt securities (1)	4.292	10.000
Fund participation (2)	131	2.215
Other debt securities (3)	1.331	-
Other investments (4)	755	692
	6.509	**12.907**
Movement:		
1 January	12.907	12.023
New assets acquired in the year	27.038	6.916
Assets derecognised or redeemed in the year	(34.135)	(4.388)
Changes in fair value/gain or loss on disposal	167	(2.221)
Interest accrued	216	254
Foreign exchange adjustments	316	323
31 December	**6.509**	**12.907**

(1) Trading debt securities comprise mainly of 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 €210 thousand (2022: €834 thousand) (Note 10).

(2) Fund participation relates to an investment on a private fund. During 2023, the Group received capital repayments amounting to €2.400 thousand (2022: €3.500 thousand). Distribution income amounting to €139 thousand has been recognised in 2023 in Other Income (2022: €431 thousand) (Note 9).

(3) Other debt securities comprised of perpetual bonds that based on the SPPI criteria, have been classified at FVTPL. Fair value loss of €106 thousand has been recognised in the Income Statement (Note 10).

(4) Other investments relate to equity investment in Visa Inc shares. Fair value gain of €63 thousand (2022: €76 thousand) has been recognised in the income statement (Note 10).

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

Risk of fluctuations in bond prices

As at 31 December 2023 the trading and other 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 2023 would result in a decrease/increase in net equity by €215 thousand (2022: €500 thousand).

Risk of fluctuations in equity prices and conversion rates

Other investments

As at 31 December 2023 the investment is exposed to price fluctuations of equity investment 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 2023 would result in a decrease/increase in net equity by €80 thousand in each case.

The maximum exposure to credit risk for debt securities is disclosed in Note 41.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 €000	2022 €000
Equity shares		
Listed	5.918	5.917
Unlisted	471	478
	6.389	**6.395**

The Group 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 2023 and 31 December 2022 is equal to their fair value.

Listed equity investments at FVOCI comprise of the investment in the share capital of Atlantic Insurance Company Limited (ATL) which is listed in the Cyprus Stock Exchange. The Group's Management believes that the price of the share is not representative as the shares of the company are not traded in an active market and therefore at 31 December 2023 and 31 December 2022 valued this investment using alternative valuation methods such as Income Approach Discounted Cash Flow Method.

Dividend income for 2023 amounting to €543 thousand (2022: €549 thousand) has been recognised in Other Income (Note 9).

21. DEBT SECURITIES

	2023 €000	2022 €000
Securities classified at amortised cost		
Listed	557.342	585.534
12 month expected credit losses	(314)	(125)
	557.028	**585.409**
Listed on the Cyprus Stock Exchange	9.970	28.964
Listed on other stock exchanges	547.058	556.445
	557.028	**585.409**

The Group has proceeded to invest in debt securities, as part of its investing strategy, which mainly related to the acquisition of Eurozone Sovereigns, supranational, Cyprus Government bonds and financial institutions bonds.

21. DEBT SECURITIES (continued)

During 2023, the Group recognised in the consolidated income statement a gain of €2.056 thousand (2022: loss €193 thousand) from the disposal of €42,4m debt securities held at amortised cost (2022: €34m). The Bank proceeded with the disposal as a measure, mainly, against credit risk deterioration of the debt securities.

The following table presents investments in debt securities by issuer type:

	2023 €000	2022 €000
Cyprus Government bonds and Cyprus Treasury Bills	210.488	263.657
Eurozone sovereign	148.744	179.379
Financial institutions	33.132	17.431
Other sovereign	164.664	124.942
	557.028	**585.409**

Certain debt securities classified at amortised cost are pledged as collateral for funding from Central Banks.

Details for encumbered assets are disclosed in Note 41.8.

The maximum exposure to credit risk for debt securities is disclosed in Note 41.1.

An analysis of changes in the gross carrying amount and the corresponding ECLs for the year ended 31 December 2023 is, as follows:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
Gross carrying amount as at 1 January 2023	585.534	-	-	585.534
New assets acquired in the year	252.110	-	-	252.110
Assets derecognised or redeemed in the year	(278.581)	-	-	(278.581)
Accrued interest	8.422	-	-	8.422
Fair value change due to hedging relationship (Note 39)	202	-	-	202
Foreign exchange adjustments	(3.697)	-	-	(3.697)
Interest received	(6.648)	-	-	(6.648)
Debt securities at amortised cost	**557.342**	**-**	**-**	**557.342**

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
ECL allowance as at 1 January 2023	125	-	-	125
Increase in the ECL during the year	319	-	-	319
Assets derecognised or matured	(130)	-	-	(130)
ECL allowance	**314**	-	-	**314**

An analysis of changes in the gross carrying amount and the corresponding ECLs for the year ended 31 December 2022 is as follows:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
Gross carrying amount as at 1 January 2022	940.217	-	-	940.217
New assets acquired in the year	549.685	-	-	549.685
Assets derecognised or redeemed in the year	(907.514)	-	-	(907.514)
Accrued interest	5.615	-	-	5.615
Fair value change due to hedging relationship (Note 39)	(1.315)	-	-	(1.315)
Foreign exchange adjustments	9.083	-	-	9.083
Interest received	(10.237)	-	-	(10.237)
Debt securities at amortised cost	**585.534**	**-**	**-**	**585.534**

21. DEBT SECURITIES (continued)

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
ECL allowance as at 1 January 2022	325	-	-	325
Increase in the ECL during the year	108	-	-	108
Assets derecognised or matured	(308)	-	-	(308)
ECL allowance	**125**	**-**	**-**	**125**

The following table presents investments in debt securities categorised according to the issuer's or country's rating for government guaranteed securities, as per the international credit rating agency, Moody's:

31 December 2023

Credit Rating	EUR €000	USD €000	GBP €000	TOTAL €000
Credit rating Aaa	4.837	95.194	4.435	104.466
Credit rating Aa2	-	17.762	-	17.762
Credit rating Aa3	-	32.544	-	32.544
Credit rating A1	1.000	-	-	1.000
Credit rating A2	34.389	-	-	34.389
Credit rating A3	31.921	1.764	621	34.306
Credit rating Baa1	5.881	-	-	5.881
Credit rating Baa2	211.718	-	-	211.718
Credit rating Baa3	91.591	-	-	91.591
Credit rating Ba1	11.714	-	-	11.714
Credit rating Ba2	4.848	-	-	4.848
Credit rating Ba3	6.809	-	-	6.809
	404.708	**147.264**	**5.056**	**557.028**

31 December 2022

Credit rating	EUR €000	USD €000	TOTAL €000
Credit rating Aaa	4.814	42.623	47.437
Credit rating Aa2	-	40.165	40.165
Credit rating Aa3	-	42.049	42.049
Credit rating A1	1.000	-	1.000
Credit rating A2	26.732	-	26.732
Credit rating A3	23.063	-	23.063
Credit rating Baa1	15.041	-	15.041
Credit rating Baa3	74.986	-	74.986
Credit rating Ba1	292.323	-	292.323
Credit rating Ba3	17.287	-	17.287
Credit rating B1	5.326	-	5.326
	460.572	**124.837**	**585.409**

The following table presents investments in bond securities by country of issuer as at 31 December 2023 and 31 December 2022:

	2023 €000	2022 €000
Investments at amortised cost:		
Cyprus	223.168	268.982
Other Eurozone countries	151.546	168.315
Other countries	182.314	148.112
	557.028	**585.409**

22. LOANS AND ADVANCES TO CUSTOMERS

	2023 €000	Restated 2022 €000
Advances to individuals	321.368	358.520
Advances to legal entities:		
Large corporate entities and organisations	193.880	200.941
Small and medium size enterprises (SMEs)	492.098	648.906
Advances to customers – gross	**1.007.346**	**1.208.367**
Allowance for ECL	**(73.925)**	**(117.700)**
Advances to customers – net	**933.421**	**1.090.667**

Gross loans comprise of gross loans and advances to customers measured at amortised cost. The amount of new originations in the year net of derecognitions and other movements is €92.214 thousand (2022: €126.816 thousand). The total write-off amounts are €58.782 thousand (2022: €62.859 thousand).

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

	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Gross carrying amount					
1 January 2023	802.692	159.849	138.238	107.588	1.208.367
New assets originated or purchased	92.214	-	-	147	92.361
Transfer to Stage 1	100.342	(99.625)	(717)	-	-
Transfer to Stage 2	(19.107)	22.351	(3.244)	-	-
Transfer to Stage 3	(2.479)	(1.165)	3.644	-	-
Net movement during the year	(124.626)	(8.265)	(6.607)	(11.406)	(150.904)
Gross loans derecognised	(70.881)	(1.012)	(6.972)	(4.831)	(83.696)
Write-offs	(225)	(100)	(39.029)	(19.428)	(58.782)
At 31 December 2023	**777.930**	**72.033**	**85.313**	**72.070**	**1.007.346**

	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Gross carrying amount					
1 January 2022	790.565	169.285	194.731	143.145	1.297.726
Restatement as previously disclosed following change in accounting policy (Note 3)	-	-	-	5.254	5.254
Restated 1 January 2022	**790.565**	**169.285**	**194.731**	**148.399**	**1.302.980**
New assets originated or purchased	126.816	-	-	6.030	132.846
Transfer to Stage 1	22.154	(21.024)	(1.130)	-	-
Transfer to Stage 2	(28.415)	32.421	(4.006)	-	-
Transfer to Stage 3	(12.925)	(2.248)	15.173	-	-
Net movement during the year	(26.116)	(13.780)	5.781	(7.789)	(41.904)
Gross loans derecognised	(69.203)	(4.799)	(22.396)	(26.298)	(122.696)
Write-offs	(184)	(6)	(49.915)	(12.754)	(62.859)
At 31 December 2022	**802.692**	**159.849**	**138.238**	**107.588**	**1.208.367**

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

The allowance for ECL is decreased from €117.700 thousand at 31 December 2022 to €73.925 thousand at 31 December 2023. The decrease is primarily driven by the €58.144 thousand write offs (2022: €62.662 thousand) and to successful resolutions implemented during the year resulting in recoveries of expected credit losses.

31 December 2023

	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
ECL allowance					
1 January 2023	4.414	2.244	78.509	32.533	117.700
Interest not recognised in the income statement	-	-	5.455	1.483	6.938
Write-offs	-	-	(39.409)	(18.735)	(58.144)
Provision on new exposures granted	464	3	-	-	467
Derecognition	(123)	(4)	(643)	(326)	(1.096)
Transfer to Stage 1	1.533	(1.297)	(236)	-	-
Transfer to Stage 2	(94)	799	(705)	-	-
Transfer to Stage 3	(91)	(273)	364	-	-
Change due to models and inputs	(554)	96	2.906	5.475	7.923
Foreign exchange difference and other movements	(3)	12	124	4	138
31 December 2023	**5.546**	**1.580**	**46.365**	**20.434**	**73.925**

31 December 2022

	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
ECL allowance					
1 January 2022	6.161	4.713	116.949	32.991	160.814
Restatement as previously disclosed following change in accounting policy (Note 3)	-	-	-	5.254	5.254
Restated 1 January 2022	**6.161**	**4.713**	**116.949**	**38.245**	**166.068**
Interest not recognised in the income statement	-	-	7.954	1.898	9.852
Write-offs	-	-	(50.616)	(12.046)	(62.662)
Provision on new exposures granted	741	-	-	540	1.281
Derecognition	(226)	(30)	(2.541)	1.509	(1.288)
Transfer to Stage 1	1.471	(1.343)	(128)	-	-
Transfer to Stage 2	(323)	608	(285)	-	-
Transfer to Stage 3	(67)	(988)	1.055	-	-
Change due to models and inputs	(3.353)	(716)	5.677	2.404	4.012
Foreign exchange difference and other movements	10	-	444	(17)	437
31 December 2022	**4.414**	**2.244**	**78.509**	**32.533**	**117.700**

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2023 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 Governments	**69.176**	**-**	**-**	**-**	**76**	**-**	**-**	**-**
Other Financial Corporations	**65.255**	**352**	**-**	**-**	**932**	**38**	**-**	**-**
Non-financial Corporations	**542.871**	**78.003**	**67.204**	**39.488**	**32.672**	**27.722**	**12.067**	**11.219**
of which: Small and Medium-sized enterprises	423.759	78.003	67.204	39.488	31.116	27.722	12.067	11.219
of which: Loans collateralized by commercial Immovable property	327.969	40.468	52.880	26.437	13.392	10.385	7.603	6.783
Non-financial Corporations by sector								
Construction	74.554	24.571	12.721	11.927	9.338	8.554	2.789	2.766
Wholesale and retail trade	93.132	13.646	6.416	6.325	8.410	7.281	2.076	2.052
Accommodation and food service activities	86.583	9.249	27.145	7.474	2.612	1.978	1.278	1.097
Real estate activities	108.542	15.699	7.747	4.228	4.392	4.104	1.456	1.404
Water supply, sewerage and waste management	124	53	-	-	51	50	-	-
Other Sectors	179.936	14.785	13.175	9.534	7.869	5.755	4.468	3.900
Households	**330.044**	**72.109**	**29.930**	**19.257**	**40.245**	**38.412**	**6.752**	**5.956**
of which: Loans collateralized by residential Immovable property	250.989	46.999	26.738	17.247	21.356	20.702	5.280	4.835
of which: Credit for consumption	63.847	26.753	5.768	3.422	17.342	16.156	1.313	907
Total	**1.007.346**	**150.464**	**97.134**	**58.745**	**73.925**	**66.172**	**18.819**	**17.175**

(1) Excluding loans and advances to central banks and credit institution

(2) The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across all categories as certain customers could be in both categories.

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2022 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 Governments	**67.430**	**-**	**-**	**-**	**40**	**-**	**-**	**-**
Other Financial Corporations	**64.185**	**2.279**	**-**	**-**	**1.863**	**1.432**	**-**	**-**
Non-financial Corporations	**711.094**	**126.434**	**144.246**	**46.925**	**54.892**	**49.502**	**9.961**	**8.602**
of which: Small and Medium-sized enterprises	578.801	126.122	129.906	46.614	52.927	49.495	9.793	8.594
of which: Loans collateralized by commercial Immovable property	399.334	65.603	104.967	33.929	19.601	16.784	5.772	4.752
Non-financial Corporations by sector								
Construction	101.984	48.395	44.358	16.680	20.287	19.691	2.582	2.546
Wholesale and retail trade	108.410	18.847	7.411	4.662	10.986	10.196	1.719	772
Accommodation and food service activities	124.876	12.565	68.190	8.793	2.556	1.633	656	131
Real estate activities	113.697	19.652	8.325	4.662	4.725	4.272	892	772
Water supply, sewerage and waste management	57	47	-	-	45	45	-	-
Other Sectors	262.070	26.928	15.962	12.128	16.294	13.666	4.112	4.380
Households	**365.659**	**110.644**	**30.587**	**24.462**	**60.906**	**59.488**	**7.767**	**7.366**
of which: Loans collateralized by residential Immovable property	258.226	68.231	25.435	20.122	30.242	29.765	5.515	5.193
of which: Credit for consumption	77.862	36.707	6.209	5.219	21.121	20.268	1.186	1.129
Total	**1.208.367**	**239.357**	**174.833**	**71.387**	**117.700**	**110.422**	**17.728**	**15.968**

(1) Excluding loans and advances to central banks and credit institutions
(2) The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across all categories as certain customers could be in both categories

23. INVESTMENT IN ASSOCIATE COMPANY

	2023 €000	2022 €000
Perfoto Developers Limited	186	186
	186	**186**

During the year ended 31 December 2022 the Group acquired 33,3% holding in associate company Perfoto Developers Limited in debt satisfaction. The company is the owner of plots of land in Pafos District and has no operations.

On 5 October 2022, the Bank acquired back the 74,9% of the issued share capital of ex-Quant and as a result the Servicing Agreement ("SLA") and the Business Services Agreement ("RSLA") were terminated. The amount of €7.598 thousand paid on termination, represents the settlement of the pre-existing contractual relationship from the SLA and RSLA ("exit fee"). This implied the additional cost incurred by the Bank to trigger the settlement of the Servicing Agreement (settlement of pre-existing relationship) and is recognised in Other Operating expenses as Servicer's settlement fees.

Until 7 October 2022 investment in ex-Quant was accounted for as an investment in associate using the equity method. The following tables illustrate the summarized financial information of the Bank's investment in ex-Quant up to 7 October 2022.

	€000
1 January	4.055
Share of 2022 loss from investment in associate	(419)
Carrying amount as at 7 October 2022	**3.636**

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

	2022 €000
Servicer`s administration fees (Note 12)	(902)
Other income and recharges	218

24. OTHER ASSETS

	2023 €000	2022 €000
Financial assets		
Funds pledged as collateral	4.955	4.936
Other receivables	2.034	2.737
	6.989	**7.673**
Non-financial assets		
Prepaid expenses	1.533	1.393
Properties with buy back option	14.228	8.664
	15.761	**10.057**
	22.750	**17.730**

Funds pledged as collateral correspond to blocked funds for the execution of the credit cards operations.

As at 31 December 2023, expected credit losses amounted to €90 thousand (2022: €3.900 thousand) are recognised in other receivables.

25. INVESTMENT PROPERTY

	2023 €000	2022 €000
1 January	19.850	13.270
Re-measurement of lease liability	2.000	-
Transfer between categories (Notes 26 & 27)	2.704	5.526
Fair value gain (Note 9)	413	1.054
31 December	**24.967**	**19.850**

During the year ended 31 December 2022, the Group acquired the remaining 24,99% shareholding in Pandingmor in debt satisfaction becoming the sole shareholder in Pandingmor.

On 27 July 2023 a supplementary addendum to the original lease agreement was signed between the Bank and the lessor, for the extension of the renewal option period on the lease term implicit in the contractual lease terms, for a further 57-year period (remaining tenor is 99 years, maturing in 2122). The Bank's assessment as a lessee, is that extension option(s) are reasonably certain to be exercised. The lease liability was remeasured to include the extended period, with corresponding adjustment in the value of the Investment Property.

Pandingmor holds a commercial property (shops and offices) under a long-term lease agreement. Up to December 2022 part of the building was used by the Group for Head office operations. The specific part of the property which was used by the Bank has been classified as 'Property and equipment' (Note 27) whilst the remaining part which is sub-leased to third parties has been classified as 'Investment property' in the consolidated statement of financial position. In December 2022, all employees of the Bank have been relocated and the total building rented to third parties. The value of the building which was previously used by the Bank has been re-classified from 'Property and equipment' to 'Investment property'.

During the year 2023, properties totalling €2.704 thousand (Notes 26 & 27) were transferred to investment property, following the change of use of the assets.

Determination of the Fair Value
The fair value of the investment in the Finance Lease Properties was determined using an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation has been performed using the comparative method in conjunction with the Income Capitalization Method. The particular method involves estimating net cash flows over the period of investment, and then calculating the present value of that series of cash flows by discounting those net cash flows using a selected discount rate.

The value of the Finance Lease Properties as per the valuation of €18.200 thousand represents the net market value of the Lease Property and the Lease liability which are presented in the statement of financial position as an asset Investment Property (€25.200 thousand) and lease liability (€7.000 thousand included in other liabilities) respectively.

The policy of the Group is to carry out valuations of its investment property every year.

Information about the fair value measurements using significant unobservable inputs (Level 3).

The Group uses model of unobservable inputs for valuation of investment property. The fair value measurement has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

25. INVESTMENT PROPERTY (continued)

Description	2023 €000	Valuation techniques	Unobservable inputs	Yield
Property held under a long-term lease	15.500	Income Capitalisation Method	Annual investors' required rate of return (discount rate)	6,0%
Property held under a long-term lease	2.700	Comparable and replacement cost method	N/A	N/A
	18.200			

Description	2022 €000	Valuation techniques	Unobservable inputs	Yield
Property held under a long-term lease	**15.200**	Discounted cash flow	Annual investors' required rate of return (discount rate)	5,0%-6,5%

Sensitivity analysis
Significant increases/decreases in estimated yield values could result in a significantly higher/lower fair value of the property.

26. STOCK OF PROPERTY

	2023 €	2022 €
1 January	140.528	131.791
Transfer to investment properties (Note 25)	(2.704)	-
Transfer from PPE (Note 27)	124	-
Additions	18.923	43.063
Disposals	(33.736)	(33.433)
Impairment (Note 14)	(3.327)	(893)
31 December	**119.808**	**140.528**

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 2023 an impairment loss of €3.327 thousand (2022: €893 thousand) was recognised in 'Impairment of non-financial assets' in the consolidated income statement (Note 14).

At 31 December 2023 stock of property with a carrying amount of €95.800 thousand (2022: €113.300 thousand) is carried at approximately its fair value less costs to sell.

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

During the year ended 31 December 2023, the Group disposed repossessed assets of a total amount of €33.736 thousand (2022: €33.433 thousand) at a gain of €126 thousand (2022: €2.924 thousand) (Note 9).

27. PROPERTY AND EQUIPMENT

	Right of use assets €000	Property €000	Equipment €000	Total €000
2023				
Net book value at 1 January	3.025	26.814	3.059	32.898
Additions	253	-	538	791
Contract modification	357	-	-	357
Depreciation (Note 13)	(768)	(266)	(977)	(2.011)
Transfer to stock of property (Note 26)	-	(124)	-	(124)
Net book value at 31 December	**2.867**	**26.424**	**2.620**	**31.911**
1 January 2023				
Cost or valuation	7.370	26.814	14.794	48.978
Accumulated depreciation	(4.345)	-	(11.735)	(16.080)
Net book value	**3.025**	**26.814**	**3.059**	**32.898**
31 December 2023				
Cost or valuation	7.980	26.690	15.332	50.002
Accumulated depreciation	(5.113)	(266)	(12.712)	(18.091)
Net book value	**2.867**	**26.424**	**2.620**	**31.911**
2022				
Net book value at 1 January	10.811	22.910	4.005	37.726
Additions	368	3.602	275	4.245
Write off/Disposals	(2.168)	-	(31)	(2.199)
Depreciation (Note 13)	(969)	(244)	(1.190)	(2.403)
Property revaluation	506	549	-	1.055
Transfer to investment property (Note 25)	(5.526)	-	-	(5.526)
Net book value at 31 December	**3.022**	**26.817**	**3.059**	**32.898**
1 January 2022				
Cost or valuation	14.187	22.910	14.550	51.647
Accumulated depreciation	(3.376)	-	(10.545)	(13.921)
Net book value	**10.811**	**22.910**	**4.005**	**37.726**
31 December 2022				
Cost or valuation	7.370	26.814	14.794	48.978
Accumulated depreciation	(4.345)	-	(11.735)	(16.080)
Net book value	**3.025**	**26.814**	**3.059**	**32.898**

Property includes land of €13.400 thousand (2022: €13.500 thousand) for which no depreciation is charged. The latest property revaluation was performed in December 2022.

The net book value of property at 31 December 2023 based on cost less accumulated depreciation is €21.400 thousand (2022: €21.700 thousand).

Fair value is determined from market-based valuations undertaken by professionally qualified valuers periodically between three to five years (but more frequent revaluations may be performed where there are significant and volatile movement in values). During the year ended 31 December no major movement in values was identified. The Group performed revaluations in December 2022.

A total revaluation surplus of €1.100 thousand was recognised during the year ended 31 December 2022.

27. PROPERTY AND EQUIPMENT (continued)

Fair value of land and buildings

The 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 2022. 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).

The Group uses model of unobservable inputs for valuation of land and buildings and right of use assets. The fair value measurement has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (Note 44).

There were no transfers between fair value hierarchy levels during year 2023 and 2022.

During the years 2023 and 2022, 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

Fair value is determined from market-based valuations undertaken by professionally qualified valuers periodically every three to five years (but more frequent revaluations may be performed where there is indication for impairment or significant and volatile movement in values).

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 2023 €000	Fair value at 31 December 2022 €000	Valuation techniques	Unobservable inputs	Estimated fair value per m²
Head Office building – Nicosia	23.215	23.215	Land cost	Price per square metre	Approximately €5.024²
			Approximation of building construction	Price per square metre	Approximately €1.792/m² for ground floor and other floors and average €686/m² for basements
Branch Buildings – Nicosia	1.043	1.043	Approximation of land and building construction	Price per square metre	Approximately €5.250/m²
Office Buildings – Nicosia	2.432	2.432	Approximation of land and building construction	Price per square metre	Approximately €3.819/m²
Commercial building	-	126	Approximation of land and building construction	Price per square metre	Approximately €2.400/m²
Total	**26.690**	**26.816**			

27. PROPERTY AND EQUIPMENT (continued)

Sensitivity analysis
Significant increases/decreases in estimated fair values per square meter could result in a significantly higher/lower fair value of the property.

28. INTANGIBLE ASSETS

	Software under development €000	Computer Software €000	Other Intangibles €000	Total €000
2023				
Net book value at 1 January	428	3.185	5.894	9.507
Additions	-	1.444	-	1.444
Amortisation (Note 13)	-	(1.322)	(1.965)	(3.287)
Transfer between categories	(428)	428	-	-
Net book value at 31 December	**-**	**3.735**	**3.929**	**7.664**
1 January 2023				
Cost	428	16.581	8.727	25.736
Accumulated amortisation	-	(13.396)	(2.833)	(16.229)
Net book value	**428**	**3.185**	**5.894**	**9.507**
31 December 2023				
Cost	-	18.453	8.727	27.180
Accumulated amortisation	-	(14.718)	(4.798)	(19.516)
Net book value	**-**	**3.735**	**3.929**	**7.664**
2022				
Net book value at 1 January	711	3.056	-	3.767
Additions	428	1.427	5.894	7.749
Amortisation (Note 13)	-	(1.298)	-	(1.298)
Write offs	(711)	-	-	(711)
Net book value at 31 December	**428**	**3.185**	**5.894**	**9.507**
1 January 2022				
Cost	711	15.153	2.833	18.697
Accumulated amortisation	-	(12.097)	(2.833)	(14.930)
Net book value	**711**	**3.056**	**-**	**3.767**
31 December 2022				
Cost	428	16.581	8.727	25.736
Accumulated amortisation	-	(13.396)	(2.833)	(16.229)
Net book value	**428**	**3.185**	**5.894**	**9.507**

Following the acquisition of ex-Quant business, other intangible assets of €5.894 thousand were recognised on the consolidated statement of financial position, as part of the purchase price allocation assessment, in line with the the fair value of the acquired business. The fair value of “Other intangibles assets” primarily reflects i) the value of identified reacquired rights for the administration and servicing of Assets under management and ii) the procedures performed by ex-Quant in relation to the strategic planning and analysis of the Assets Under Management ("AUM") (both portfolios of NPEs and REOs), the assignment of the optimal resolution strategy for each case and the expected monetary value to be generated from the servicing of the AUM over the projected period.

During 2022, the Group proceeded with the write-off of software under development relating to the treasury system, amounting to €711 thousand.

29. 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 Group has the right at any time after the expiry of the initial term to terminate the present rental agreement by providing notice (usually 3 or 6 months' notice) to the lessor. Depending on the terms agreed, the rent is adjusted at the end of each renewal period, according to the current rates of the area and considering the relevant legislation.

During the year ended 31 December 2022, the Group acquired the remaining 24,99% shareholding in Pandingmor in debt satisfaction becoming the sole shareholder in Pandingmor.

Pandingmor holds a commercial property (shops and offices) under a long-term lease agreement. Initial duration of the lease agreement was 50 years with the residual duration of 42 years as at 31 December 2022. Up to December 2022 part of the building was used by the Group for Head office operations. The specific part of the property which was used by the Bank has been classified as "Property and equipment" (Note 27) whilst the remaining part which is sub-leased to third parties has been classified as "Investment property" in the consolidated statement of financial position. In December 2022, all employees of the Bank have been relocated and the total building rented to third parties. The value of the building which was previously used by the Bank for a total value of €5.526 thousand has been re-classified from "Property and equipment" to "Investment property". As at 31 December 2022, the total value of the building is classified as "Investment property".

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:

2023	**Right of use Assets – Property and Equipment (Note 27) €000**	**Right of use Assets – Investment Property (Note 25) €000**	**Total Right of use Assets €000**	**Lease Liabilities (Note 35) €000**
1 January	3.025	19.850	22.875	(7.698)
Additions	652	2.000	2.652	(2.706)
Transfer between categories	-	2.704	2.704	-
Assets derecognised	(42)	-	(42)	46
Fair value adjustment	-	413	413	-
Depreciation charge for the year (Note 13)	(768)	-	(768)	-
Interest expense	-	-	-	(408)
Cash outflows	-	-	-	1.004
31 December	**2.867**	**24.967**	**27.834**	**(9.762)**

2022	**Right of use Assets – Property and Equipment (Note 27) €000**	**Right of use Assets – Investment Property (Note 25) €000**	**Total Right of use Assets €000**	**Lease Liabilities (Note 35) €000**
1 January	10.811	13.270	24.081	(8.032)
Additions	368	-	368	(368)
Transfer between categories	(5.526)	5.526	-	-
Assets derecognised	(2.167)	-	(2.167)	70
Fair value adjustment	509	1.054	1.563	-
Depreciation charge for the year (Note 13)	(969)	-	(969)	-
Interest expense	-	-	-	(373)
Cash outflows	-	-	-	1.005
31 December	**3.026**	**19.850**	**22.876**	**(7.698)**

RoU assets as at 31 December 2023 comprised of leases for buildings of €27.787 thousand (2022: €22.829 thousand) and leases for cars of €47 thousand (2022: €47 thousand) and are presented within property and equipment and investment property.

29. LEASES (continued)

Cash outflows relate to lease payments made in the year.

The analysis of lease liabilities based on remaining contractual maturity is disclosed in Note 45.

30. 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.

Deferred tax assets/(liabilities)

	2023 €000	**2022 €000**
Deferred tax assets	2.082	4.192
Deferred tax liabilities	(1.971)	(4.297)
Net deferred tax assets/(liabilities)	**111**	**(105)**

The movement in the deferred tax assets/(liabilities) is set below:

	2023 €000	**2022 €000**
Balance at 1 January	(105)	(2.119)
Deferred tax transferred via acquisition of subsidiaries (1)	-	(1.090)
Stock of property	1.284	65
Investment property	1.886	-
Allowance for expected credit losses	62	(494)
Tax losses	(3.250)	3.250
Property revaluation – recognised in consolidated statements of other comprehensive income	52	199
Difference between capital allowances and depreciation	182	84
Balance at 31 December	**111**	**(105)**

(1) It comprises of deferred tax liability transferred via: i) the acquisition of ex-USB properties (€379 thousand) and ii) the reacquired right from the acquisition of ex-Quant business (€711 thousand).

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

	2023 €000	**2022 €000**
Tax losses	-	3.250
Allowance for expected credit losses	928	866
Stock of property	1.078	-
Lease agreements	76	76
Property revaluation	(747)	(799)
Investment property	(50)	(1.937)
Difference between capital allowances and depreciation	(1.174)	(1.355)
Stock of property	-	(206)
Balance at 31 December	**111**	**(105)**

30. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Recognition of deferred tax assets on unutilised income tax losses is supported by 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.

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 credit in the consolidated income statement relates to temporary differences as follows:

	2023 €000	**2022 €000**
Tax losses	(3.250)	3.250
Allowance for expected credit losses	62	(494)
Investment property	1.886	-
Stock of property	1.284	65
Difference between capital allowances and depreciation	170	84
Total (Note 15)	**152**	**2.905**

31. AMOUNTS DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

	2023 €000	**2022 €000**
Analysis by geographical sector		
Cyprus	1.905	1.699
United States	12.087	-
Other countries	10.525	11.435
	24.517	**13.134**

32. 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:

	2023 €000	**2022 €000**
Targeted Longer-Term Refinancing Operations (TLTRO III)	204.910	296.502
Total	**204.910**	**296.502**

As at 31 December 2023, the ECB funding was decreased to €200.000 thousand (2022: €300.000 thousand) following an early repayment of €100.000 thousand in September 2023 borrowed from various TLTRO III operations. The Bank proceeded with repayment of additional €100.000 thousand on 27 March 2024. The final repayment of €100.000 thousand is expected in September 2024.

As from 23 November 2022 onwards, the applicable interest rate would be indexed to the average applicable key ECB interest rates. The maturity of TLTRO III is three years from the settlement of each operation, but there is an option available to early repay or reduce the amounts borrowed before their respective final maturity.

Interest expense in 2023 and interest income in 2022 from the above transactions are included in "Interest expense" and "Interest income" respectively in the Consolidated Income Statement.

Details on encumbered assets related to the above funding facilities are disclosed in Note 41.8.

33. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

Analysis by type of deposit

	2023 €000	2022 €000
Demand	1.022.345	1.181.271
Savings	359.144	402.314
Term	773.312	528.327
Total	**2.154.801**	**2.111.912**

Analysis by customer type

	2023 €000	2022 €000
Large entities and organisations	129.491	111.856
Small and medium size enterprises	894.616	868.829
Deposits from individuals	1.130.694	1.131.227
Total	**2.154.801**	**2.111.912**

Analysis by line

	2023 €000	2022 €000
Retail	1.327.302	1.256.385
Corporate	140.824	118.086
International banking services	587.387	651.385
Wealth management	97.938	84.263
Recoveries banking unit	1.350	1.793
Total	**2.154.801**	**2.111.912**

Analysis by currency

	2023 €000	2022 €000
Euro	1.816.375	1.749.972
US Dollar	311.079	336.099
British Pound	23.171	22.080
Swiss Franc	2.415	1.158
Other	1.761	2.603
Total	**2.154.801**	**2.111.912**

Analysis by geographical area

	2023 €000	2022 €000
Cyprus	1.882.504	1.799.376
Lebanon	116.969	131.806
Greece	65.045	75.204
British Virgin Islands	8.684	9.515
Russia	1.553	4.741
Other countries	80.046	91.270
Total	**2.154.801**	**2.111.912**

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

34. DEBT SECURITIES IN ISSUE AND SUBORDINATED LIABILITIES

			2023		2022	
			€000	€000	€000	€000
Subordinated liabilities	**Call option date**	**Contractual interest rate**	**Nominal Value**	**Carrying Value**	**Nominal Value**	**Carrying Value**
Subordinated Tier 2 Bonds -June 2020		8,00%	16.404	16.459	16.404	16.463
			16.404	**16.459**	**16.404**	**16.463**
Debt securities in issue – MREL qualified (Senior preferred bonds)						
Euro	January-2026	7,875%	9.000	9.305	-	-
USD	January-2026	9,00%	4.064	4.221	-	-
Euro	June-2025	6,50%	8.200	8.200	-	-
USD	June-2025	8,50%	11.020	11.020	-	-
Euro	December-2023	6,50%	-	-	5.200	5.200
USD	December-2023	8,50%	-	-	9.179	9.179
			32.284	**32.746**	**14.379**	**14.379**
Debt securities in issue						
Non MREL eligible – Euro		0% up to Call Date	-	-	7.000	7.000
			-	**-**	**7.000**	**7.000**
Total debt securities in issue			**32.284**	**32.746**	**21.379**	**21.379**

Subordinated liabilities

In June 2020, the Group issued a €16.400 thousand unsecured and subordinated Tier 2 Bond. The Bond was priced at par with a coupon of 8% per annum, payable quarterly. The Bond matures in June 2030 (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.

Debt securities in issue – MREL qualified

In December 2022, the Bank issued €5.200 thousand and US$9.800 thousand senior preferred bonds. The Bonds were priced at par with a coupon of 6,50% and 8,50% per annum respectively, payable annually. The Bonds maturing in December 2024 (two years from the issuance date) and the Bank has the option to redeem the bonds early in December 2023, subject to applicable regulatory consents. The bonds comply with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contribute towards Group's MREL requirements. The bonds were listed on the Cyprus Stock Exchange market. The Bank exercised the early redemption right on 29 December 2023 after obtaining the applicable regulatory license.

In July 2023, the Bank issued €9.000 thousand and US$4.500 thousand senior preferred bonds. The Bonds were priced at par with a coupon of 7,875% and 9,0% per annum respectively, payable annually. The Bonds mature in January 2027 (3,5 years from the issuance date). The Bank has the option to redeem the bonds in January 2026, subject to applicable regulatory consents. The bonds comply with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contribute towards Bank's MREL requirements. The bonds are listed on the Emerging Companies Bonds Market of the Cyprus Stock Exchange.

34. DEBT SECURITIES IN ISSUE AND SUBORDINATED LIABILITIES (continued)

Debt securities in issue – MREL qualified (continued)

In December 2023, the Bank issued €8.200 thousand and US$12.200 thousand senior preferred bonds. The Bonds were priced at par with a coupon of 6,5% and 8,5% per annum respectively, payable semi-annually. The Bonds mature in June 2026 (2,5 years from the issuance date). The Bank has the option to redeem the bonds in June 2025, subject to applicable regulatory consents. The bonds comply with the criteria for the minimum requirement for own funds and eligible liabilities (MREL) and contribute towards Bank's MREL requirements. The bonds will be listed on the Emerging Companies Bonds Market of the Cyprus Stock Exchange.

Debt securities in issue – Non MREL eligible

In October 2022, as part of the total consideration for the acquisition of ex-Quant business, the Bank issued three different senior preferred bonds aggregated to EUR7.000 thousand. The bonds were priced at par with zero coupon up to the Call date and resettable thereafter at 12% per annum until the maturity date. The bonds were maturing in February 2024, June 2024 and October 2024. The Bank had the option to redeem the bonds at the Call Date. The Bank proceeded with exercising the option and early redeemed the bonds at the call option dates in February, June and October 2023 for the total amount of €7.000 thousand.

Fair value of debt securities in issue and subordinated liabilities

The Bank considers that the fair value of the Bonds as at 31 December 2023 and 31 December 2022 approximate their book value (Note 43).

35. OTHER LIABILITIES

	2023 €000	2022 €000
Items in the course of settlement	17.611	22.306
Lease liabilities (Note 29)	9.762	7.698
Accrued expenses	3.446	4.121
Provisions for financial guarantees and commitments	503	724
Current tax liabilities	14	-
Other liabilities	19.993	23.797
Total	**51.329**	**58.646**

Other liabilities relate to deferred income from credit related transactions, prepayments for agreed sales of real estate owned assets and various provisions.

36. SHARE CAPITAL AND SHARE PREMIUM

	Authorised share capital		Issued share capital	
	Number of shares	€000	Number of shares	€000
Ordinary shares	**40.000.000**	**40.000**	**23.624.789**	**179.008**

	Share Capital €000	Share Premium €000	Total €000
31 December 2022	**23.625**	**155.383**	**179.008**
31 December 2023	**23.625**	**155.383**	**179.008**

36. SHARE CAPITAL AND SHARE PREMIUM (continued)

Authorised share capital
There were no changes to the authorised share capital during the year ended 31 December 2023 and 2022.

Issued share capital and share premium
All issued ordinary shares carry the same rights.

There were no changes to the issued share capital during the year ended 31 December 2023 and 2022.

37. RETAINED EARNINGS AND OTHER RESERVES

	2023 €000	2022 €000
Retained earnings		
Balance at 1 January	22.398	10.350
Special defence contribution on deemed dividend distribution	(36)	(134)
Disposal of non-controlling interest	-	140
Profit for the year attributable to the owners of the Bank	30.415	12.042
Balance at 31 December	**52.777**	**22.398**
Fair value reserve		
Balance at 1 January	2.270	1.081
Property revaluation	-	927
Deferred tax on revaluation of property held for own use (Note 30)	52	199
Revaluation for the year on FVTOCI financial assets	(6)	63
Balance 31 December	**2.316**	**2.270**

For the purpose of dividend distribution, retained earnings determined at the Company level, are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution (SDC) at 17,0% is payable on such deemed dividend distribution to the extent that the shareholders of the Company at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents or individuals who are domiciled in Cyprus. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus. The deemed dividend distribution is subject to 2,65% contribution to the General Health System (GHS). The amount of the deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

38. 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.

	2023 €000	2022 €000
Contingent liabilities		
Credit guarantees	4.840	1.968
Letters of guarantees	58.461	54.810
	63.301	**56.778**
Commitments		
Unutilised limits	**127.918**	**135.279**
Total contingent liabilities and commitments	**191.219**	**192.057**

As at 31 December 2023 letters of guarantee of €13.600 thousand (31 December 2022: €16.800 thousand) 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

Commitments for IT expenditure as at 31 December 2023 amounted to €1.200 thousand (2022: €1.000 thousand).

Legal proceedings

The Group, in the ordinary course of business, is involved in various disputes and legal proceedings. The Group considers that none of these matters are material, apart from what is described below, either individually or in aggregate and provisions have been made where: (a) there is a present obligation (legal or constructive) arising from past events, (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 Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so, or because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. There are also situations where the Group may enter into settlement agreements.

The following case in relation to an arbitration proceeding commenced in prior years for an amount deposited by AstroBank to National Bank of Greece (Cyprus) Ltd of €3,8 million as part of an Agreement for the purchase of the underlying business of the National Bank of Greece (Cyprus) Ltd. The arbitration has been completed on 30 March 2023 and the final arbitration award on this case was issued in November 2023 against AstroBank. The Bank proceeded with the relevant payment, as per the award decision, for an amount of €1,5 million and included in Other Operating Expenses under Legal fees (Note 12). The case is now closed.

There are no other material pending litigations. While the outcome of litigation proceedings are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and other matters as at 31 December 2023 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group. In line with the provisions of IAS37 'Provisions, Contingent Liabilities and Contingent Assets' some information required may not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation or the outcome of some cases of the Group.

39. 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 Group 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:

	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 recognised in consolidated income statement
		Assets	Liabilities				
	€000	€000	€000	€000	€000	€000	€000
2023							
Hedging instrument							
Interest rate swaps (Note 18)	5.000	1.023	-	Derivative financial instruments	-	196	47
Hedged item							
Cyprus Government bonds		4.997	-	Debt securities	(1.018)	(202)	
2022							
Hedging instrument							
Interest rate swaps (Note 18)	5.000	1.226	-	Derivative financial instruments	-	1.315	13
Hedged item							
Cyprus Government bonds		4.998	-	Debt securities	(1.214)	(1.302)	

40. 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 2023 are listed below.

		Country of incorporation	Activities	Percentage
1	A.P.M. Control Company Ltd	Cyprus	Property holding	100%
2	A.P.M. Firstsun Company Ltd	Cyprus	Property holding	100%
3	Adanina Limited	Cyprus	Property holding	100%
4	Adflikton Investments Limited	Cyprus	Property holding	100%
5	Ailanthus Holdings Limited	Cyprus	Property holding	100%
6	Altexpono Limited	Cyprus	Property holding	100%
7	Amatorco Limited	Cyprus	Property holding	100%
8	Apomeli Ltd	Cyprus	Dormant	100%
9	Assong Holding Limited	Cyprus	Property holding	100%
10	AstroBank Insurance Agency Limited	Cyprus	Insurance brokerage	100%
11	Averrhoa Limited	Cyprus	Property holding	100%
12	Axalus Limited	Cyprus	Dormant	100%
13	Azulito Ventures Limited	Cyprus	Property holding	100%
14	Brawnido Ltd	Cyprus	Dormant	100%
15	Bushtron Holdings Limited	Cyprus	Property holding	100%
16	Callistem Holdings Limited	Cyprus	Property holding	100%
17	Carbinor Consultants Limited	Cyprus	Secretarial services to the Bank's SPVs	100%
18	Catouna Ltd	Cyprus	Dormant	100%
19	Conaria Holdings Limited	Cyprus	Property holding	100%
20	Crantenia Ventures Limited	Cyprus	Property holding	100%
21	Dacibel Limited	Cyprus	Property holding	100%
22	Delaway Limited	Cyprus	Intermediate holding company	100%
23	Dremikol Ltd	Cyprus	Dormant	100%
24	Dusanic Holdings Limited	Cyprus	Intermediate holding company	100%
25	EMF Investors Limited	Cyprus	Dormant	100%
26	Feelopie Holding Limited	Cyprus	Property holding	100%
27	Firstplatinum Company Ltd	Cyprus	Property holding	100%
28	Fralidom Ltd	Cyprus	Dormant	100%
29	Gianteto Limited	Cyprus	Property holding	100%
30	Imagetech Limited	Cyprus	Intermediate holding company	100%
31	J&P Kalamon Limited	Cyprus	Property holding	100%
32	Jiboka Limited	Cyprus	Dormant	100%
33	Kaihur Investment Limited	Cyprus	Dormant	100%
34	Kantadia Ventures Limited	Cyprus	Property holding	100%
35	Katefors Ltd	Cyprus	Dormant	100%

40. GROUP COMPANIES (continued)

		Country of incorporation	Activities	Percentage
36	Lewisia Holdings Limited	Cyprus	Intermediate holding company	100%
37	Macerio Limited	Cyprus	Property holding	100%
38	Mangum Holding Limited	Cyprus	Property holding	100%
39	Martisio Limited	Cyprus	Property holding	100%
40	Meribas Limited	Cyprus	Director of the Bank's SPVs	100%
41	Meroskino Limited	Cyprus	Property holding	100%
42	Naila Holdings Limited	Cyprus	Intermediate holding company	100%
43	Olcinia Holdings Limited	Cyprus	Intermediate holding company	100%
44	Olemo Limited	Cyprus	Property holding	100%
45	Openstar International Company Ltd	Cyprus	Property holding	100%
46	Osperus Holdings Limited	Cyprus	Intermediate holding company	100%
47	Pandingmor Limited	Cyprus	Property holding under long term lease agreement	100%
48	Pelasela Ltd	Cyprus	Dormant	100%
49	Perekin Holdings Limited	Cyprus	Intermediate holding company	100%
50	Perequito Holdings Limited	Cyprus	Intermediate holding company	100%
51	Pexofino Limited	Cyprus	Property holding	100%
52	Phelien Limited	Cyprus	Dormant	100%
53	Ramatary Limited	Cyprus	Dormant	100%
54	Raunaki Ltd	Cyprus	Property holding	100%
55	Rimitaria Limited	Cyprus	Dormant	100%
56	Rockory Enterprises Limited	Cyprus	Dormant	100%
57	Rowington Ventures Limited	Cyprus	Property holding	100%
58	Sabatia Limited	Cyprus	Property holding	100%
59	Scaevola Ventures Limited	Cyprus	Property holding	100%
60	Serdetto Limited	Cyprus	Property holding	100%
61	Serianio Limited	Cyprus	Dormant	100%
62	Serissa Holdings Limited	Cyprus	Intermediate holding company	100%
63	Sistemero Limited	Cyprus	Property holding	100%
64	Todero Limited	Cyprus	Property holding	100%
65	Tomentos Holdings Limited	Cyprus	Property holding	100%
66	Viegiot Investments Limited	Cyprus	Property holding	100%
67	Xepa Company Limited	Cyprus	Property holding	100%
68	Yurania Investments Limited	Cyprus	Property holding	100%

40. GROUP COMPANIES (continued)

During the year, the Group proceeded with the merger of its wholly owned subsidiaries Chrynoa Ltd and Shortia Ltd on the basis of the Merger Plan and Scheme of Arrangement process dated 18 October 2023. All assets and liabilities of the subsidiaries were transferred to the Bank and the entities dissolved. The purpose of the merger was to simplify the group structure and improve the property management.

41. RISK MANAGEMENT

As part of its business activities, the Group is exposed to a variety of risks the most significant of which include Credit risk, Market risk, Liquidity risk, Funding risk, and Operational risk. 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. The risks described below, should not be regarded as a complete and comprehensive statement of all potential risks, uncertainties or mitigants as other factors either not yet identified or not currently material, may also adversely affect the Group.

41.1 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 in 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.

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.

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

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.

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.

Maximum exposure to credit risk before collaterals and other credit improvements

The table below presents the maximum exposure to credit risk that results from financial instruments included in the consolidated statement of financial position, 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.

	Maximum exposure	
	31 December 2023 €000	**31 December 2022 €000**
Credit risk exposure on balance sheet items:		
Balances with Central Bank	972.706	768.607
Placements with other banks	22.720	21.943
Loans and advances to customers	933.421	1.090.667
Debt securities	557.028	585.409
Financial assets at fair value through profit or loss	5.754	12.215
Derivative financial instruments	4.906	1.305
Other assets	6.989	7.673
	2.503.524	**2.487.819**
Credit risk exposure from off balance sheet items:		
Credit guarantees	4.840	1.968
Letters of guarantee	58.461	54.810
Unutilised credit limits	127.918	135.279
	191.219	**192.057**
Total on and off-balance sheet items	**2.694.743**	**2.679.876**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

According to the above table, 37% (31 December 2022: 29%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 35% (31 December 2022: 41%) from loans and advances to customers and 21% (31 December 2022: 22%) 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:

	Maximum exposure	
	31 December 2023 €000	**31 December 2022 €000**
On balance sheet		
Cyprus	2.028.978	1.994.896
Greece	45.024	97.973
Other countries	429.522	394.950
	2.503.524	**2.487.819**
Off balance sheet		
Cyprus	185.541	185.918
Greece	2.783	2.692
Other countries	2.895	3.447
	191.219	**192.057**
Total on and off-balance sheet		
Cyprus	2.214.519	2.180.814
Greece	47.807	100.665
Other countries	432.417	398.397
	2.694.743	**2.679.876**

Geographical analysis is based on the counterparty country of risk.

41.1.1 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 loan amount or mortgage plus interest if lower and as such any excess collateral is disclosed as 'Surplus Collateral' in the table below.

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

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

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

31 December 2023	**Exposure to credit risk €000**	**Cash €000**	**Letters of credit/ guarantee €000**	**Other €000**	**Property €000**	**Total collateral €000**	**Net exposure to credit risk €000**	**Surplus collateral €000**
Balances with Central Bank	972.706	-	-	-	-	-	972.706	-
Placements with other banks	22.720	-	-	-	-	-	22.720	-
Derivative financial instruments	4.906	-	-	-	-	-	4.906	-
Financial assets at fair value through profit or loss	5.754	-	-	-	-	-	5.754	-
Debt securities	557.028	-	-	-	-	-	557.028	-
Loans and advances to customers	933.421	68.764	53.865	68.905	625.458	816.992	116.429	632.712
Other assets	6.989	-	-	-	-	-	6.989	-
Total on balance sheet	**2.503.524**	**68.764**	**53.865**	**68.905**	**625.458**	**816.992**	**1.686.532**	**632.712**
Credit guarantees	4.840	-	-	-	51	51	4.789	-
Letters of guarantee	58.461	9.137	22	658	7.224	17.041	41.420	3.782
Unutilised limits	127.918	-	-	-	-	-	127.918	-
Total off-balance sheet	**191.219**	**9.137**	**22**	**658**	**7.275**	**17.092**	**174.127**	**3.782**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

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

31 December 2022	Exposure to credit risk €000	Cash €000	Letters of credit/ guarantee €000	Other €000	Property €000	Total collateral €000	Net exposure to credit risk €000	Surplus collateral €000
Balances with Central Bank	768.607	-	-	-	-	-	768.607	-
Placements with other banks	21.943	-	-	-	-	-	21.943	-
Derivative financial instruments	1.305	-	-	-	-	-	1.305	-
Financial assets at fair value through profit or loss	12.215	-	-	-	-	-	12.215	-
Debt securities	585.409	-	-	-	-	-	585.409	-
Loans and advances to customers	1.090.667	68.781	56.400	46.625	773.512	945.318	145.349	615.632
Other assets	7.673	-	-	-	-	-	7.673	-
Total on balance sheet	**2.487.819**	**68.781**	**56.400**	**46.625**	**773.512**	**945.318**	**1.542.501**	**615.632**
Credit guarantees	1.968	-	-	-	-	-	1.968	-
Letters of guarantee	54.810	3.378		-	3.086	6.464	48.346	1.878
Unutilised limits	135.279	-	-	-	-	-	135.279	-
Total off-balance sheet	**192.057**	**3.378**	**-**	**-**	**3.086**	**6.464**	**185.593**	**1.878**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.1 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.

41.1.2 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.

2023	**Cyprus €000**	**Greece €000**	**Other countries €000**	**Gross loans at amortised cost €000**
By economic activity				
Other sectors	407.525	5.591	27.994	441.110
Real estate and construction	150.897	5.578	26.746	183.221
Wholesale and retail trade	93.447	-	-	93.447
General Governments	69.175	-	-	69.175
Accommodation and food services	62.459	23.043	1.350	86.852
Industrial	52.876	-	882	53.758
Shipping	15.040	-	25.004	40.044
Financial institutions	39.739	-	-	39.739
Total	**891.158**	**34.212**	**81.976**	**1.007.346**

2022	**Cyprus €000**	**Greece €000**	**Other countries €000**	**Gross loans at amortised cost €000**
By economic activity				
Other sectors	469.363	6.736	30.937	507.036
Real estate and construction	181.847	6.105	27.921	215.873
Accommodation and food services	82.553	41.336	1.500	125.389
Wholesale and retail trade	109.135	-	-	109.135
General Governments	67.430	-	-	67.430
Shipping	21.161	-	43.202	64.363
Financial institutions	63.672	-	-	63.672
Industrial	54.072	-	1.397	55.469
Total	**1.049.233**	**54.177**	**104.957**	**1.208.367**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

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

31 December 2023	Cyprus €000	Greece €000	Other countries €000	Gross loans at amortised cost €000
By business line				
Corporate	520.595	28.750	55.158	604.503
Retail	255.541	1.106	8.103	264.750
Recoveries Banking Unit	113.637	55	10.339	124.031
Wealth Management	995	4.298	8.374	13.667
International Business Unit	390	3	2	395
Total	**891.158**	**34.212**	**81.976**	**1.007.346**

31 December 2022	Cyprus €000	Greece €000	Other countries €000	Gross loans at amortised cost €000
By business line				
Corporate	594.945	47.652	85.020	727.617
Retail	254.053	2.153	8.940	265.146
Recoveries Banking Unit	197.552	50	2.356	199.958
Wealth Management	713	4.322	8.639	13.674
International Business Unit	1.970	-	2	1.972
Total	**1.049.233**	**54.177**	**104.957**	**1.208.367**

41.1.3 Currency concentration of loans and advances to customers

Gross loans at amortised cost	2023 €000	2022 €000
Euro	900.924	1.065.425
US Dollar	76.341	107.874
Pound sterling	27.122	28.540
Swiss Franc	2.959	6.528
Total	**1.007.346**	**1.208.367**

41.1.4 Analysis of loans and advances to customers by staging

31 December 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Gross loans at amortised cost before residual fair value adjustment on initial recognition	777.982	72.152	85.225	148.594	1.083.953
Residual fair value adjustment on initial recognition	(52)	(119)	88	(76.524)	(76.607)
Gross loans at amortised cost	**777.930**	**72.033**	**85.313**	**72.070**	**1.007.346**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

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

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Gross loans at amortised cost before residual fair value adjustment on initial recognition	802.360	159.732	138.144	235.851	1.336.087
Residual fair value adjustment on initial recognition	332	117	94	(128.263)	(127.720)
Gross loans at amortised cost	**802.692**	**159.849**	**138.238**	**107.588**	**1.208.367**

The residual fair value adjustment on initial recognition mainly relates to the loans and advances to customers acquired as part of the acquisition of USB Bank business. In accordance with the provisions of IFRS 3, this adjustment is netted off with the gross balance of loans and advances to customers. The residual fair value adjustment is included within the gross balances of loans and advances to customers as at each balance sheet date. However, for credit risk monitoring, the residual fair value adjustment is presented separately from the gross balances of loans and advances, as shown in the tables above.

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

31 December 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Corporate	520.688	58.036	5.635	20.144	604.503
Retail	243.051	12.942	4.884	3.873	264.750
Recoveries Banking Unit	129	1.055	74.794	48.053	124.031
Wealth Management	13.667	-	-	-	13.667
International Business Unit	395	-	-	-	395
Total	**777.930**	**72.033**	**85.313**	**72.070**	**1.007.346**
Cyprus	688.059	57.566	73.695	71.838	891.158
Greece	19.934	14.217	61	-	34.212
Other countries	69.937	250	11.557	232	81.976
Total	**777.930**	**72.033**	**85.313**	**72.070**	**1.007.346**

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Corporate	546.419	146.205	12.725	22.268	727.617
Retail	240.341	12.544	7.937	4.324	265.146
Recoveries Banking Unit	389	997	117.576	80.996	199.958
Wealth Management	13.674	-	-	-	13.674
International Business Unit	1.869	103	-	-	1.972
Total	**802.692**	**159.849**	**138.238**	**107.588**	**1.208.367**
Cyprus	682.901	133.048	126.215	107.069	1.049.233
Greece	27.781	26.338	58	-	54.177
Other countries	92.010	463	11.965	519	104.957
Total	**802.692**	**159.849**	**138.238**	**107.588**	**1.208.367**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.5 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:

31 December 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Outstanding exposure as at 1 January	53.233	101	1.808	1.636	56.778
Transfers to Stage 1	20	(20)	-	-	-
Transfers to Stage 2	(1.156)	1.156	-	-	-
Transfers to Stage 3	(1)	-	1	-	-
Net increase/(decrease)	8.263	102	(1.617)	(225)	6.523
At 31 December 2023	**60.359**	**1.339**	**192**	**1.411**	**63.301**

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Outstanding exposure as at 1 January	58.071	608	1.360	1.964	62.003
Transfers to Stage 1	536	(536)	-	-	-
Transfers to Stage 2	(15)	15	-	-	-
Transfers to Stage 3	(224)	(1)	225	-	-
Net (decrease)/increase	(5.135)	15	223	(328)	(5.225)
At 31 December 2022	**53.233**	**101**	**1.808**	**1.636**	**56.778**

31 December 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
ECLs as at 1 January	270	-	287	167	724
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	(2)	2	-	-	-
Transfers to Stage 3	-	-	-	-	-
Change in credit risk (Note 14)	28	3	(268)	16	(221)
At 31 December 2022	**296**	**5**	**19**	**183**	**503**
Individually assessed	-	-	-	119	119
Collectively assessed	296	5	19	64	384
	296	**5**	**19**	**183**	**503**

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
ECLs as at 1 January	454	1	610	156	1.221
Transfers to Stage 1	1	(1)	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	(1)	-	1	-	-
Change in credit risk (Note 14)	(184)	-	(324)	11	(497)
At 31 December 2022	**270**	**-**	**287**	**167**	**724**
Individually assessed	-	-	244	125	369
Collectively assessed	270	-	43	42	355
	270	**-**	**287**	**167**	**724**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.5 Contingent liabilities and commitments (continued)

The outstanding contingent liabilities by geography are disclosed in the table below:

31 December 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Cyprus	56.200	1.333	192	1.011	58.736
Other countries	4.159	6	-	400	4.565
Total	**60.359**	**1.339**	**192**	**1.411**	**63.301**

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €00	POCI €000	Total €000
Cyprus	49.272	101	1.807	1.236	52.416
Other countries	3.961	-	1	400	4.362
Total	**53.233**	**101**	**1.808**	**1.636**	**56.778**

41.1.6 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 2023	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Balances with Central Bank	972.706	-	-	-	972.706
Placements with other banks	22.720	-	-	-	22.720
Debt securities	557.342	-	-	-	557.342
Loans and advances to customers	777.930	72.033	85.313	72.070	1.007.346
Other assets	7.030	-	-	-	7.030
Total financial assets in scope of ECL requirements	**2.337.728**	**72.033**	**85.313**	**72.070**	**2.567.144**
Credit guarantees	4.840	-	-	-	4.840
Letters of guarantee	55.519	1.339	192	1.411	58.461
Unutilised limits	125.430	2.164	96	228	127.918
Total off-balance sheet instruments in scope of ECL requirements	**185.789**	**3.503**	**288**	**1.639**	**191.219**

31 December 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Balances with Central Bank	768.607	-	-	-	768.607
Placements with other banks	21.943	-	-	-	21.943
Debt securities	585.534	-	-	-	585.534
Loans and advances to customers	802.692	159.849	138.238	107.588	1.208.367
Other assets	7.673	-	-	-	7.673
Total financial assets in scope of ECL requirements	**2.186.449**	**159.849**	**138.238**	**107.588**	**2.592.124**
Credit guarantees	1.914	-	54	-	1.968
Letters of guarantee	51.319	101	1.754	1.636	54.810
Unutilised limits	131.660	3.118	239	262	135.279
Total off-balance sheet instruments in scope of ECL requirements	**184.893**	**3.219**	**2.047**	**1.898**	**192.057**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.6 Expected credit loss measurement (continued)

The table below discloses the ECL allowance of the financial assets and off-balance sheet instruments by Staging:

31 December 2023

	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Balances with Central Bank	-	-	-	-	-
Placements with other banks	-	-	-	-	-
Debt securities	314	-	-	-	314
Loans and advances to customers	5.546	1.580	46.365	20.434	73.925
Other assets	90	-	-	-	90
Total ECL allowance on financial assets in scope of ECL requirements	**5.950**	**1.580**	**46.365**	**20.434**	**74.329**
Credit guarantees	4	-	-	-	4
Letters of guarantee	292	5	19	183	499
Total ECL allowance on off-balance sheet instruments in scope of ECL requirements	**296**	**5**	**19**	**183**	**503**

31 December 2022

	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Balances with Central Bank	-	-	-	-	-
Placements with other banks	-	-	-	-	-
Debt securities	125	-	-	-	125
Loans and advances to customers	4.415	2.243	78.642	32.400	117.700
Other assets	3.810	-	-	-	3.810
Total ECL allowance on financial assets in scope of ECL requirements	**8.350**	**2.243**	**78.642**	**32.400**	**121.635**
Credit guarantees	-	-	3	-	3
Letters of guarantee	270	-	284	167	721
Total ECL allowance on off-balance sheet instruments in scope of ECL requirements	**270**	**-**	**287**	**167**	**724**

ECL allowance on unutilised limits is included in ECL allowance of loans and advances to customers.

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.7 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	Italy	United States	Other countries	Total
	€000	€000	€000	€000	€000	€000
31 December 2023						
Credit risk exposure from on balance sheet assets						
Balances with Central Bank	972.706	-	-	-	-	972.706
Placements with other banks	-	384	237	7.803	14.296	22.720
Loans and advances to customers	824.400	33.893	4	1.461	73.663	933.421
Debt securities	223.168	10.418	60.358	75.535	187.549	557.028
Financial assets at FVTPL	676	329	-	1.047	3.702	5.754
Derivative financial instruments	1.039	-	-	-	3.867	4.906
Other assets	6.989	-	-	-	-	6.989
Total on balance sheet assets	**2.028.978**	**45.024**	**60.599**	**85.846**	**283.077**	**2.503.524**
Credit risk exposure from off balance sheet assets						
Credit guarantees	4.840	-	-	-	-	4.840
Letters of guarantee	53.895	2.541	-	-	2.025	58.461
Unutilised credit limits	126.806	242	-	-	870	127.918
Total off balance sheet assets	**185.541**	**2.783**	**-**	**-**	**2.895**	**191.219**
Total on and off-balance sheet assets as at 31 December	**2.214.519**	**47.807**	**60.599**	**85.846**	**285.972**	**2.694.743**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.7 Geographical analysis (continued)

	Cyprus €000	Greece €000	Italy €000	United States €000	Other countries €000	Total €000
31 December 2022						
Credit risk exposure from on balance sheet assets:						
Balances with Central Bank	768.607	-	-	-	-	768.607
Placements with other banks	-	587	1.138	7.889	12.329	21.943
Loans and advances to customers	938.721	53.697	-	2.009	96.240	1.090.667
Debt securities	268.982	43.350	59.367	32.467	181.243	585.409
Financial assets at FVTPL	9.661	339	-	-	2.215	12.215
Derivative financial instruments	1.252	-	-	-	53	1.305
Other assets	7.673	-	-	-	-	7.673
Total on balance sheet assets	**1.994.896**	**97.973**	**60.505**	**42.365**	**292.080**	**2.487.819**
Credit risk exposure from off balance sheet assets:						
Credit guarantees	1.968	-	-	-	-	1.968
Letters of guarantee	50.448	2.405	-	-	1.957	54.810
Unutilised credit limits	133.502	287	-	-	1.490	135.279
Total off balance sheet assets	**185.918**	**2.692**	**-**	**-**	**3.447**	**192.057**
Total on and off-balance sheet assets as at 31 December	**2.180.814**	**100.665**	**60.505**	**42.365**	**295.527**	**2.679.876**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.8 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 €000	Accommodation and food services €000	Wholesale and retail trade €000	Real estate and Construction €000	Financial Institutions €000	General Governments €000	Other sectors €000	Total €000
31 December 2023								
Balances with Central Bank	-	-	-	-	972.706	-	-	972.706
Placements with other banks	-	-	-	-	22.720	-	-	22.720
Loans and advances to customers:								
Retail	-	-	-	-	-	-	281.726	281.726
Large entities & organisations	23.489	9.518	30.055	20.185	16.837	-	92.241	192.325
Small and medium size enterprises	28.684	74.685	54.781	149.284	47.413	15.900	88.623	459.370
Debt securities	-	-	-	-	41.967	515.061	-	557.028
Financial assets at fair value through profit or loss	-	-	-	-	3.590	2.033	131	5.754
Derivative financial instruments	-	-	-	-	4.906	-	-	4.906
Other assets	-	-	-	-	-	-	6.989	6.989
	52.173	**84.203**	**84.836**	**169.469**	**1.110.139**	**532.994**	**469.710**	**2.503.524**
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	-	-	3.881	959	-	-	-	4.840
Letters of guarantee	6.539	1.060	10.871	26.923	960	-	12.108	58.461
Unutilised credit limits	21.368	3.832	34.717	6.462	4.760	568	56.211	127.918
	27.907	**4.892**	**49.469**	**34.344**	**5.720**	**568**	**68.319**	**191.219**
Total on and off-balance sheet assets 31 December	**80.080**	**89.095**	**134.305**	**203.813**	**1.115.859**	**533.562**	**538.029**	**2.694.743**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.8 Business sector analysis (continued)

	Industrial €000	Accommodation and food services €000	Wholesale and retail trade €000	Real estate and Construction €000	Financial Institutions €000	General Governments €000	Other sectors €000	Total €000
31 December 2022								
Balances with Central Bank	-	-	-	-	768.607	-	-	768.607
Placements with other banks	-	-	-	-	21.943	-	-	21.943
Loans and advances to customers:								
Retail	-	-	-	-	-	-	298.768	298.768
Large entities & organisations	27.256	10.381	30.415	20.357	10.866	-	99.997	199.272
Small and medium size enterprises	25.923	112.428	67.287	170.444	50.950	12.471	153.124	592.627
Debt securities	-	-	-	-	21.954	563.455	-	585.409
Financial assets at fair value through profit or loss	-	-	-	-	10.000	-	2.215	12.215
Derivative financial instruments	-	-	-	-	1.305	-	-	1.305
Other assets	-	-	-	-	-	-	7.673	7.673
	53.179	**122.809**	**97.702**	**190.801**	**885.625**	**575.926**	**561.777**	**2.487.819**
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	-	-	1.430	538	-	-	-	1.968
Letters of guarantee	4.563	1.022	10.960	29.657	786	-	7.822	54.810
Unutilised credit limits	17.559	4.536	31.687	8.943	1.476	5.384	65.694	135.279
	22.122	**5.558**	**44.077**	**39.138**	**2.262**	**5.384**	**73.516**	**192.057**
Total on and off-balance sheet assets 31 December	**75.301**	**128.367**	**141.779**	**229.939**	**887.887**	**581.310**	**635.293**	**2.679.876**

41. RISK MANAGEMENT (continued)

41.1 Credit risk (continued)

41.1.9 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 amounted to €114.800 thousand (2022: €100.700 thousand). The equivalent write-off amount excluding the residual fair value adjustment on initial recognition amounted to €58.782 thousand (2022: €62.859 thousand).

41.1.10 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.

41.1.11 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 Tier 1, after taking into account the effect of credit risk mitigation in accordance with relevant articles of CRR. Exposures to institutions shall not exceed 25% of a bank's Tier 1 or €150m whichever is higher. Where the amount of €150m is higher than 25% of a bank's Tier 1, after taking into account the effect of credit risk mitigation techniques, the limit shall not exceed 100% of a bank's Tier 1. As at and during the year ended 31 December 2023 there were no violations of the CRR Large Exposure Limits.

41.2 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.

41. RISK MANAGEMENT (continued)

41.3 Property price risk

A significant part of the Group's loan portfolio is secured by real estate the majority of which is located in Cyprus. Furthermore, the Group holds a substantial number of properties mainly arising from loan restructuring activities, the enforcement of loan collateral and debt for asset swaps. These properties are held by the Group as stock of properties.

41.4 Funding risk

Funding risk is the risk that the Group does not have sufficiently stable sources of funding or access to sources of funding may not always be available at a reasonable cost and thus the Group may fail to meet its obligations, including regulatory ones (e.g. MREL).

41.5 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 Risk Appetite Framework, the Market Risk Management 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.

41.6 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 Group's loan portfolio.

With regards to statement of financial position items in the Group's portfolio as at 31 December 2023 a parallel increase in market interest rates across all currencies by 100 basis points would result in an increase in profit before tax by €11 million (2022: €5 million). A parallel decrease in market interest rates by 100 basis points would result in a decrease in profit before tax by €11 million (2022: €5 million)

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.

41. RISK MANAGEMENT (continued)

41.6 Interest rate risk (continued)

31 December 2023

	Up to 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	Over 5 years €000	Non-interest bearing items €000	Total €000
Assets							
Balances with Central Bank	972.706	-	-	-	-	11.861	984.567
Placements with other banks	22.720	-	-	-	-	-	22.720
Loans and advances to customers	540.762	262.246	54.259	764	75.390	-	933.421
Debt securities	80.064	15.545	113.334	223.690	124.395		557.028
Financial assets at fair value through profit or loss	4.292	-	-	214	1.117	886	6.509
Derivative financial instruments	-	-	-	-	1.023	3.883	4.906
Other assets	-	-	-	-		22.750	22.750
	1.620.544	**277.791**	**167.593**	**224.668**	**201.925**	**39.380**	**2.531.901**
Liabilities							
Due to other banks	15.201	-	-	-	9.316	-	24.517
Funding from Central Bank	204.910	-	-	-	-	-	204.910
Derivative financial instruments	-	-	-	-	-	4.074	4.074
Customer deposits	1.574.197	140.527	399.921	40.156			2.154.801
Other liabilities	-	-	-	-	-	51.315	51.315
Subordinated liabilities	-	-	-	-	16.459	-	16.459
Debt securities in issue	-	-	-	32.746	-	-	32.746
Total	**1.794.308**	**140.527**	**399.921**	**72.902**	**25.775**	**55.389**	**2.488.822**
Net balance sheet position	**(173.764)**	**137.264**	**(232.328)**	**151.766**	**176.150**		

41. RISK MANAGEMENT (continued)

41.6 Interest rate risk (continued)

31 December 2022

	Up to 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	Over 5 years €000	Non-interest bearing items €000	Total €000
Assets							
Balances with Central Bank	768.607	-	-	-	-	14.024	782.631
Placements with other banks	21.943	-	-	-	-	-	21.943
Loans and advances to customers	580.901	417.406	75.267	2.871	14.222	-	1.090.667
Debt securities	45.043	43.897	66.940	332.558	96.971	-	585.409
Financial assets at fair value through profit or loss	10.000	-	-	2.215	-	692	12.907
Derivative financial instruments	-	-	-	-	1.226	79	1.305
Other assets	-	-	-	-		17.730	17.730
	1.426.494	**461.303**	**142.207**	**337.644**	**112.419**	**32.525**	**2.512.592**
Liabilities							
Due to other banks	2.640	-	-	-	10.494	-	13.134
Funding from Central Banks	296.502	-	-	-	-	-	296.502
Customer deposits	1.736.208	97.335	277.590	779	-	-	2.111.912
Derivative financial instruments	-	-	-	-	-	139	139
Other liabilities	-	-	-	-	-	58.646	58.646
Subordinated liabilities	-	-	-	-	16.463	-	16.463
Debt securities in issue	-	-	-	21.379	-	-	21.379
Total	**2.035.350**	**97.335**	**277.590**	**22.158**	**26.957**	**58.785**	**2.518.175**
Net balance sheet position	**(608.856)**	**363.968**	**(135.383)**	**315.486**	**85.462**		

41. RISK MANAGEMENT (continued)

41.6 Interest rate risk (continued)

Interest rate benchmark reform

The LIBOR and the EURIBOR (collectively referred to as IBORs) were subject of international, national, and other regulatory guidance and proposals for reform.

Regarding LIBOR reform, regulators and industry working groups have identified alternative rates to transition to. In March 2021 the Financial Conduct Authority (FCA) has confirmed that all LIBOR settings would either cease to be provided by any administrator or no longer be representative of the underlying market they intended to measure immediately after 31 December 2021 in the case of all sterling, euro, Swiss franc and Japanese yen settings and the 1 week and 2-month US dollar settings and immediately after 30 June 2023, in the case of the remaining US dollar settings.

In September 2022, the FCA confirmed that the publication of 1-month and 6-month synthetic GBP LIBOR will be required until the end of March 2023, after which date these settings will permanently cease. On 23 November 2022, the FCA announced its intention (i.e., proposed, not confirmed yet) to continue to require LIBOR's administrator, IBA, to publish the 3-month synthetic GBP LIBOR setting until the end of March 2024, after which it will also permanently cease.

On 23 November 2022, the FCA announced that the three synthetic JPY LIBOR settings will cease at end 2022. Also, under their new use restriction power they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. On 23 November 2022, the FCA announced its proposal (i.e., proposed, not confirmed yet) to require IBA to continue to publish the 1-month, 3-month and 6-month USD LIBOR settings on a synthetic basis until end September 2024.

The Group has successfully completed the transition to the alternative interest rate benchmarks of USD LIBOR contracts by end of June 2023.

41. RISK MANAGEMENT (continued)

41.7 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	2023 Impact on consolidated income statement €000	2022 Impact on consolidated income statement €000
United States Dollar	±10%	±912	±16
Pound sterling	±10%	±2	±3
Swiss Franc	±10%	±621	±33
Other currencies	±10%	±101	-

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, categorised by currency. The table also presents the notional amount of derivative financial instruments, categorized by currency.

41. RISK MANAGEMENT (continued)

41.7 Currency risk (continued)

2023	Euro €000	US Dollar €000	Pound sterling €000	Swiss Franc €000	Other currencies €000	Total €000
Assets						
Balances with central banks	984.204	232		131	-	984.567
Placements with other banks	11.208	7.847	922	236	2.507	22.720
Loans and advances to customers	832.794	70.821	27.113	2.693	-	933.421
Debt securities	404.708	147.263	5.057	-	-	557.028
Financial assets at fair value through other comprehensive income	6.389	-	-	-	-	6.389
Financial assets at fair value through profit or loss	4.707	1.802	-	-	-	6.509
Derivative financial instruments	4.894	12	-	-	-	4.906
Other assets	17.907	4.843	-	-	-	22.750
Total assets	**2.266.811**	**232.820**	**33.092**	**3.060**	**2.507**	**2.538.290**
Liabilities						
Due to other banks	11.550	12.967	-	-	-	24.517
Funding from central banks	204.910	-	-	-	-	204.910
Customer deposits	1.816.375	311.079	23.171	2.415	1.761	2.154.801
Derivative financial instruments	3.797	226	51	-	-	4.074
Other liabilities	46.068	4.517	-	507	237	51.329
Subordinated liabilities	16.459	-	-	-	-	16.459
Debt securities in issue	17.506	15.240	-	-	-	32.746
Total liabilities	**2.116.665**	**344.029**	**23.222**	**2.922**	**1.998**	**2.488.836**
Equity	234.101	-	-	-	-	234.101
Total equity and liabilities	**2.350.766**	**344.029**	**23.222**	**2.922**	**1.998**	**2.722.937**
Net balance sheet position	**(83.955)**	**(111.209)**	**9.870**	**138**	**509**	**(184.647)**
Net notional amount of derivative financial instruments	(101.771)	111.169	(9.838)	-	440	-
Net foreign exchange position	**(185.726)**	**(40)**	**32**	**138**	**949**	**(184.647)**

41. RISK MANAGEMENT (continued)

41.7 Currency risk (continued)

2022	Euro €000	US Dollar €000	Pound sterling €000	Swiss Franc €000	Other currencies €000	Total €000
Assets						
Balances with Central Banks	782.290	240	101	-	-	782.631
Placements with other banks	7.157	7.938	2.641	553	3.654	21.943
Loans and advances to customers	955.136	102.430	28.533	4.568	-	1.090.667
Debt securities	460.572	124.837	-	-	-	585.409
Financial assets at fair value through other comprehensive income	6.395	-	-	-	-	6.395
Financial assets at fair value through profit or loss	10.000	2.907	-	-	-	12.907
Derivative financial instruments	1.254	25	26	-	-	1.305
Other assets	10.389	7.341	-	-	-	17.730
Total assets	**2.233.193**	**245.718**	**31.301**	**5.121**	**3.654**	**2.518.987**
Liabilities						
Due to other banks	13.034	100	-	-	-	13.134
Funding from Central Banks	296.502	-	-	-	-	296.502
Customer deposits	1.749.972	336.098	22.080	1.158	2.604	2.111.912
Derivative financial instruments	7	132	-	-	-	139
Other liabilities	55.934	22	-	2.690	-	58.646
Subordinated liabilities	16.463	-	-	-	-	16.463
Debt securities in issue	12.200	9.179	-	-	-	21.379
Total liabilities	**2.144.112**	**345.531**	**22.080**	**3.848**	**2.604**	**2.518.175**
Equity	203.676	-	-	-	-	203.676
Total equity and liabilities	**2.347.788**	**345.531**	**22.080**	**3.848**	**2.604**	**2.721.851**
Net balance sheet position	**(114.595)**	**(99.813)**	**9.221**	**1.273**	**1.050**	**(202.864)**
Net notional amount of derivative financial instruments	(88.645)	97.595	(8.954)	4	-	-
Net foreign exchange position	**(203.240)**	**(2.218)**	**267**	**1.277**	**1.050**	**(202.864)**

41. RISK MANAGEMENT (continued)

41.8 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 classified at FVTPL.

41.9 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
As at and during 2023, the Bank was in compliance with all regulatory liquidity requirements.

The Bank LCR is calculated based on the CRD IV/CRR as supplemented Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. The objective of LCR is to promote the short-term resilience of the liquidity risk profile of banks. As at 31 December 2023 the Bank's liquidity coverage ratio stood at 366% (31 December 2022: 281%) and was in compliance with the minimum regulatory requirement of 100%.

The Bank also calculates its NSFR as per Capital Requirements Regulation II (CRR II). The NSFR is the ratio of available stable funding to required stable funding. NSFR has been developed to promote a sustainable maturity structure of assets and liabilities. At 31 December 2023, the Group's NSFR stood at 189% (compared to 164% at 31 December 2022) and was in compliance with the minimum regulatory requirement of 100%.

Main sources of funding
As at 31 December 2023 the Group's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations. The participation in funding operations was driven by the Bank's objective for generating income, rather than to enhance its liquidity position. At 31 December 2023, the' Group's funding from central banks amounted to €200.000 thousand (2022: €300.000 thousand), which relates to ECB funding, through Targeted Longer-Term Refinancing Operations (TLTRO).

Collateral requirements and other disclosures

The carrying values of the Bank's encumbered assets	**2023** **€000**	**2022** **€000**
Placements with Banks	6.781	745
Debt securities at amortised cost	242.545	362.798

Placements with Banks is mainly used to cover collateral required for derivatives, trade finance transactions and guarantees issued. As at 31 December 2023 and 2022 investments are mainly used as collateral for ECB funding.

<u>*Cash flows from non-derivative financial instruments*</u>
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.

RISK MANAGEMENT (continued)

41.9 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 €000	Up to 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Total €000
2023						
Financial assets						
Balances with Central Bank	984.567	-	-	-	-	984.567
Placements with other banks	22.720	-	-	-	-	22.720
Derivative financial instruments	3.883	-	-	1.023	-	4.906
Financial assets at fair value through profit or loss	5.047	-	131	214	1.117	6.509
Financial assets at fair value through other comprehensive income	6.389	-	-	-	-	6.389
Loans and advances to customers	200.790	9.161	23.341	154.179	545.949	933.421
Debt securities	80.064	15.545	113.334	223.690	124.395	557.028
Other assets	22.750	-	-	-	-	22.750
	1.326.210	**24.706**	**136.806**	**379.106**	**671.461**	**2.538.289**
Financial liabilities						
Due to other banks	15.201	-	-	-	9.316	24.517
Funding from Central Bank	-	-	-	204.910	-	204.910
Customer deposits	1.574.518	140.926	404.168	41.003		2.160.615
Derivative financial instruments	4.074	-	-	-	-	4.074
Other liabilities	51.329	-	-	-	-	51.329
Subordinated liabilities	-	-	-		16.459	16.459
Debt securities in issue	-	-	-	32.746		32.746
	1.645.122	**140.926**	**404.168**	**278.659**	**25.775**	**2.494.650**
Net liquidity position	**(318.912)**	**(116.220)**	**(267.362)**	**100.447**	**645.686**	**43.639**

41. RISK MANAGEMENT (continued)

41.9 Liquidity risk (continued)

	Up to 1 month €000	Up to 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Total €000
2022						
Financial assets						
Balances with Central Bank	782.631	-	-	-	-	782.631
Placements with other banks	21.943	-	-	-	-	21.943
Derivative financial instruments	79	-	-	1.226	-	1.305
Financial assets at fair value through profit or loss	10.692	-	2.215	-	-	12.907
Financial assets at fair value through other comprehensive income	6.395	-	-	-	-	6.395
Loans and advances to customers	247.703	38.542	20.769	180.481	603.173	1.090.667
Debt securities	45.044	43.896	66.940	332.558	96.971	585.409
Other assets	17.730	-	-	-	-	17.730
	1.132.217	**82.438**	**89.924**	**514.265**	**700.144**	**2.518.988**
Financial liabilities						
Due to other banks	2.640	-	-	-	10.494	13.134
Funding from Central Bank	-	-	-	296.502	-	296.502
Customer deposits	1.746.000	125.907	240.341	780	-	2.113.028
Derivative financial instruments	139	-	-	-	-	139
Other liabilities	58.646	-	-	-	-	58.646
Subordinated liabilities	-	-	-	-	16.463	16.463
Debt securities in issue	-	-	-	21.379	-	21.379
	1.807.425	**125.907**	**240.341**	**318.661**	**26.957**	**2.519.291**
Net liquidity position	**(675.208)**	**(43.469)**	**(150.417)**	**195.604**	**673.187**	**(303)**

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. RISK MANAGEMENT (continued)

41.10 Climate risk

Climate risk is a growing consideration for financial institutions given the increasing effects of climate change globally and the sharp regulatory focus on addressing the resultant risks. The Group's businesses, operations and assets could be affected by climate-related and environmental (C&E) risks over the short, medium and long term. The Group is committed to integrate C&E risk considerations into all relevant aspects of the decision making, governance, strategy and risk management and has taken the necessary steps to achieve this.

42. 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.

Regulatory Capital framework overview

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") as amended by Regulation (EU) 2019/876 (the "CRR II") and Directive (EU) 2019/878 (the "CRD V") respectively, establishes the prudential requirements for capital, liquidity and leverage that entities need to abide. CRD V governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.

With regards to the Bank Recovery and Resolution Directive (BRRD) this requires EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, the BRRD II came into effect as part of the reform package for strengthening the resilience and resolvability of European banks and this was transposed and implemented in Cyprus law in May 2021. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and were immediately effective.

The table below presents the regulatory capital requirements, as at each reporting period:

Total Capital Requirements	**2023**	**2022**
Pillar I – Total Capital Requirements	8,00%	8,00%
Pillar II – Total Capital Requirements	3,83%	2,85%
Total SREP Capital Requirements	**11,83%**	**10,85%**
Capital Combined Buffer Requirement (CBR)	2,50%	2,50%
Other systemically important (OSII)	0,25%	0,25%
Bank's Specific Countercyclical Buffer (CcyB)	0,46%	0,00%
Total Combined Buffers Requirement (CBR)	**3,21%**	**2,75%**
Overall Capital Requirements (OCR)	**15,04%**	**13,60%**

CET1 Requirements	**2023**	**2022**
Pillar I – Total Capital Requirements	4,50%	4,50%
Pillar II – Total Capital Requirements	2,15%	1,60%
Total Combined Buffers Requirement (CBR)	3,21%	2,75%
Minimum CET1 Capital Requirements including CcyB	**9,86%**	**8,85%**

Further to the above, the CBC requires the Bank to maintain Pillar II Guidance ('P2G') in the form of CET1.

The Bank is subject to minimum Leverage ratio requirement of 3%. The leverage ratio is calculated as the Tier 1 Capital divided by the Bank's total exposure on a transitional and on a fully loaded basis.

42. CAPITAL MANAGEMENT (continued)

Regulatory Capital Position

The table below presents the actual ratios, on a transitional basis, as at each reporting period:

	2023 €000	2022 €000
Common Equity Tier 1 capital	€221.409	€191.136
Tier 1 capital	€221.409	€191.136
Total Own Funds	**€237.868**	**€207.599**
Risk weighted assets	**€1.001.831**	**€1.155.834**
Common Equity Tier 1 ratio	22,1%	16,5%
Tier 1 ratio	22,1%	16,5%
Total Capital Adequacy Ratio	23,7%	18,0%
Leverage ratio	7,9%	6,9%

During the year 2023, the capital ratios were positively affected by the profit of the year and by the decrease in the risk weighted assets, primarily due to the reduction of the NPEs and repayment of loans. The Overall Capital adequacy ratio (transitional and fully loaded) stood at 23,7% as at 31 December 2023 (18,0% on a transitional basis and 17,8% on a fully loaded as at 31 December 2022). The Bank's capital position was in compliance with the minimum regulatory requirement, including P2G, throughout the reporting period and as at 31 December 2023.

As at 31 December 2023 the Leverage Ratio (transitional basis) of the Group was 7,9% compared to 6,9% as at 31 December 2022. The fully phased in Leverage Ratio was 7,9%.

Minimum Requirement for own funds and Eligible Liabilities (MREL)
Based on the final decision of April 2024 the minimum requirement for own funds and eligible liabilities (MREL) for the Bank is set at 22,3% of Total Risk Exposure Amount ("TREA") and 5,3% of Leverage ratio exposure ("LRE") and this must be met by 31 December 2024. As at 31 December 2023, the MREL ratio calculated at 27,8% of RWA or 10,0% of LRE (31 December 2022: 19,2% of RWA and 8,0% of LRE) and meets the final binding target set by the regulators of 25,5% of RWAs, including the combined buffer requirement applicable as at 31 December 2023 and increases to 26,0% in June 2024 following increase of Countercyclical Buffer by 0,5%.

The Capital and MREL ratios include the profits as audited by the external auditors for the year ended 31 December 2023.

43. 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.

43. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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 €000	Level 2 €000	Level 3 €000	Total €000
31 December 2023				
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	-	-	6.389	6.389
Financial assets at fair value through profit or loss	6.378	-	131	6.509
Derivative financial instruments	-	4.906	-	4.906
Investment property	-	-	24.967	24.967
Property and equipment	-	-	31.911	31.911
	6.378	**4.906**	**63.398**	**74.682**
Other financial assets not measured at fair value				
Cash and balances with Central Bank	-	984.567	-	984.567
Placements with other banks	-	22.720	-	22.720
Debt securities	534.242		-	534.242
Loans and advances to customers	-	-	942.010	942.010
Other assets	-	-	22.750	22.750
	534.242	**1.007.287**	**964.760**	**2.506.289**
Liabilities measured at fair value				
Derivative financial instruments	-	4.074	-	4.074
	-	**4.074**	**-**	**4.074**
Liabilities not measured at fair value				
Funding from Central Bank	-	204.910	-	204.910
Amounts due to other banks and deposits from banks	-	24.517	-	24.517
Deposits and other customer accounts	-	-	2.154.801	2.154.801
Other liabilities	-	-	51.329	51.329
Subordinated liabilities	-	-	16.459	16.459
Debt securities in issue	-	-	32.746	32.746
	-	**229.427**	**2.255.335**	**2.484.762**

There were no significant transfers between levels during the year.

43. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
31 December 2022				
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	-	-	6.395	6.395
Financial assets at fair value through profit or loss	10.692	-	2.215	12.907
Derivative financial instruments	-	1.305	-	1.305
Investment property	-	-	19.850	19.850
Property and equipment	-	-	32.898	32.898
	10.692	**1.305**	**61.358**	**73.355**
Other financial assets not measured at fair value				
Cash and balances with Central Banks	-	782.631	-	782.631
Placements with other banks	-	21.943	-	21.943
Debt securities	541.833		-	541.833
Loans and advances to customers	-	-	1.090.667	1.090.667
Other assets	-	-	17.730	17.730
	541.833	**804.574**	**1.108.397**	**2.454.804**
Liabilities measured at fair value				
Derivative financial instruments	-	139	-	139
	-	**139**	**-**	**139**
Liabilities not measured at fair value				
Funding from Central Banks	-	296.502	-	296.502
Amounts due to other banks and deposits from banks	-	13.134	-	13.134
Deposits and other customer accounts	-	-	2.111.912	2.111.912
Other liabilities	-	-	16.463	16.463
Subordinated liabilities	-	-	21.379	21.379
Debt securities in issue	-	-	58.646	58.646
	-	**309.636**	**2.208.400**	**2.518.036**

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.

43. 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 following table presents the changes in Level 3 instruments for the year ended 31 December 2023:

	FVTOCI €000	FVTPL €000	PROPERTY AND EQUIPMENT €000	INVESTMENT PROPERTY €000	TOTAL €000
1 January 2023	6.395	14.212	32.898	19.850	73.355
Additions	-	30.639	815	2.000	33.454
Transfer between categories (Notes 25 & 27)	-	-	(124)	2.704	2.580
Contract modification	-	-	357	-	357
Depreciation (Note 13)	-	-	(2.011)	-	(2.011)
Revaluation losses recognised in consolidated income statement (Note 9 & 10)	-	167	-	413	580
Revaluation gains recognised in other comprehensive income (Note 37)	(6)	-		-	(6)
Disposals and transfers (Notes 19 & 27)	-	(34.135)	(24)	-	(34.159)
Interest accrued (Note 19)	-	216	-	-	216
Foreign exchange gain (Note 19)	-	316	-	-	316
31 December 2023	**6.389**	**11.415**	**31.911**	**24.967**	**74.682**
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	**-**	**483**	**-**	**413**	**896**

43. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2022:

	FVTOCI €000	FVTPL €000	PROPERTY AND EQUIPMENT €000	INVESTMENT PROPERTY €000	TOTAL €000
1 January 2022	6.332	12.119	37.726	13.270	69.447
Additions	-	6.916	4.245	-	11.161
Transfer between categories (Notes 25 & 27)	-	-	(5.526)	5.526	-
Depreciation (Note 13)	-	-	(2.403)	-	(2.403)
Revaluation losses recognised in consolidated income statement (Note 9 &10)	-	(2.221)	-	1.054	(1.167)
Revaluation gains recognised in other comprehensive income (Note 37)	63	-	1.055	-	1.118
Disposals and transfers (Notes 19 & 27)	-	(3.179)	(2.199)	-	(5.378)
Interest accrued (Note 19)	-	254	-	-	254
Foreign exchange gain (Note 19)	-	323	-	-	323
31 December 2022	**6.395**	**14.212**	**32.898**	**19.850**	**73.355**
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	**-**	**(1.898)**	**-**	**1.054**	**(844)**

44. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2023

	FVTPL €000	FVOCI – Equity instruments €000	Amortised cost €000	Total carrying amount €000
Assets				
Balances with Central Bank	-	-	984.567	984.567
Placements with other banks	-	-	22.720	22.720
Derivative financial instruments	4.906	-	-	4.906
Loans and advances to customers	-	-	933.421	933.421
Investment securities:				
-Debt securities	5.623	-	557.028	562.651
-Equity securities	131	6.389	-	6.520
-Other investments	755	-	-	755
Other assets	-	-	22.750	22.750
Total financial assets	**11.415**	**6.389**	**2.520.486**	**2.538.290**
Liabilities				
Derivative financial instruments	4.074	-	-	4.074
Funding from Central Bank	-	-	204.910	204.910
Amounts due to other banks and deposits from banks	-	-	24.517	24.517
Deposits and other customer accounts	-	-	2.154.801	2.154.801
Other liabilities	-	-	51.315	51.315
Subordinated liabilities	-	-	16.459	16.459
Debt securities in issue	-	-	32.746	32.746
Total financial liabilities	**4.074**	**-**	**2.484.748**	**2.488.822**

31 December 2022

	FVTPL €000	FVOCI – Equity instruments €000	Amortised cost €000	Total carrying amount €000
Assets				
Balances with Central Bank	-	-	782.631	782.631
Placements with other banks	-	-	21.943	21.943
Derivative financial instruments	1.305	-	-	1.305
Loans and advances to customers	-	-	1.090.667	1.090.667
Investment securities:				
-Debt securities	10.000	-	585.409	595.409
-Equity securities	2.215	6.395	-	8.610
-Other investments	692	-	-	692
Other assets	-	-	17.730	17.730
Total financial assets	**14.212**	**6.395**	**2.498.380**	**2.518.987**
Liabilities				
Derivative financial instruments	139	-	-	139
Funding from Central Bank	-	-	296.502	296.502
Amounts due to other banks and deposits from banks	-	-	13.134	13.134
Deposits and other customer accounts	-	-	2.111.912	2.111.912
Other liabilities	-	-	58.646	58.646
Subordinated liabilities	-	-	16.463	16.463
Debt securities in issue	-	-	21.379	21.379
Total financial liabilities	**139**	**-**	**2.518.036**	**2.518.175**

45. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

	2023			2022		
	Less than one year €000	Over one year €000	Total €000	Less than one year €000	Over one year €000	Total €000
Assets						
Cash and balances with Central Bank	958.831	25.736	**984.567**	761.740	20.891	**782.631**
Placements with other banks	22.720	-	**22.720**	21.943	-	**21.943**
Derivative financial instruments	3.883	1.023	**4.906**	79	1.226	**1.305**
Financial assets at FVTPL	5.754	755	**6.509**	12.215	692	**12.907**
Financial assets at FVTOCI	-	6.389	**6.389**	-	6.395	**6.395**
Debt securities	208.943	348.085	**557.028**	155.880	429.529	**585.409**
Loans and advances to customers	37.388	896.033	**933.421**	69.465	1.021.202	**1.090.667**
Investment in associate	-	186	**186**	-	186	**186**
Other assets	12.030	10.720	**22.750**	3.621	14.110	**17.731**
Investment property	2.700	22.267	**24.967**	-	19.850	**19.850**
Stock of property	40.000	79.808	**119.808**	45.000	95.528	**140.528**
Property and equipment	-	31.911	**31.911**	-	32.898	**32.898**
Intangible assets	1.965	5.699	**7.664**	1.413	8.095	**9.508**
Deferred tax asset	-	2.082	**2.082**	3.250	942	**4.192**
Total assets	**1.294.214**	**1.430.694**	**2.724.908**	**1.074.606**	**1.651.544**	**2.726.150**
Liabilities						
Amounts due to other banks and deposits from banks	15.201	9.316	**24.517**	4.864	8.270	**13.134**
Funding from Central Bank	204.910	-	**204.910**	100.000	196.502	**296.502**
Derivative financial instruments	4.074	-	**4.074**	140	-	**140**
Deposits and other customer accounts	249.774	1.905.027	**2.154.801**	142.685	1.969.228	**2.111.913**
Other liabilities	37.896	13.433	**51.329**	40.701	17.945	**58.646**
Subordinated liabilities	-	16.459	**16.459**	-	16.463	**16.463**
Debt securities in issue	-	32.746	**32.746**	4.650	16.729	**21.379**
Deferred tax liability	-	1.971	**1.971**	-	4.297	**4.297**
Total liabilities	**511.855**	**1.978.952**	**2.490.807**	**293.040**	**2.229.434**	**2.522.474**

45. 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.

Cash and balances with central banks are classified in the relevant time band based on the contractual maturity, with the exception of obligatory balances with central banks which are classified in the 'Over one year' time band.

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.

Performing 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 'n the 'Over one year' time band, based on the observed behavioral 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.

46. 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.

The Group according to the provisions of IAS 24 considers as key management personnel a team of fourteen senior personnel reporting directly to the CEO. The number of key management personnel as at 31 December 2023 was 13 (2022: 16).

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 2023 and 31 December 2022. Interest income and expense is disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

	2023 €000	**2022 €000**
Loans and advances	1.694	1.656
Interest income	66	33
Deposits	1.089	1.295
Interest expense	4	-
Other fees	64	73

As at 31 December 2023, there were contingent liabilities and commitments to Key Management personnel who were not Directors and their connected persons amounting to €100 thousand (2022: €100 thousand).

46. RELATED PARTY TRANSACTIONS (continued)

Remuneration of key management personnel of the Group

	2023 €000	2022 €000
Key management personnel remuneration: Salaries and other benefits and employer's contributions	2.596	2.318
Voluntary redundancy costs	200	200
Total	**2.796**	**2.518**

Non-executive Directors' remuneration

	2023 €000	2022 €000
Remuneration of Non-Executive Directors (Note 12)	491	454

47. EVENTS AFTER THE REPORTING PERIOD

No significant non-adjusting events have taken place since 31 December 2023.

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
1060 Nicosia
P.O. Box 21656
1511 Nicosia, Cyprus

Tel: +357 22209999
Fax: +357 22209998
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 "Bank"), and its subsidiaries (the "Group"), which are presented in pages 16 to 122 and comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the Bank for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, 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

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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
Expected credit losses on loans and advances to customers As at 31 December 2023, gross loans and advances to customers amounted to €1.007.346 thousand and the related expected credit losses ("ECL") amounted to €73.925 thousand. Refer to Note 22 of the consolidated financial statements for the relevant disclosures. The relevant accounting policy is presented and further analysed in Note 2.15 of the consolidated financial statements. Management exercises significant judgement, using subjective assumptions when determining the amounts of the ECL for loans and advances to customers. Refer to Note 6.2 of the consolidated financial statements for the critical accounting estimates and judgments used in the calculation of ECL. Management exercises significant level of judgement and estimates for the below areas: • The allocation of loans and advances to Stages 1, 2 or 3 using criteria in accordance with IFRS 9; • The inputs, assumptions and probability weights assigned to multiple economic scenarios;	We have performed, among others, the following audit procedures: • Updated our understanding and performed walkthroughs of the processes relevant to the calculation of ECL to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls across the processes relevant to the calculation of ECL. • 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. • Engaged our financial risk specialists to perform an assessment as to whether the coding of the Bank's ECL and Macro tools used for the calculation of ECL is in line with the Bank's IFRS 9 provisioning methodology. • Engaged our financial risk specialists to assess whether the macroeconomic scenarios and the probability weights used in the Bank's ECL are reasonable. • Engaged our financial risk specialists to perform the following: ○ Independently develop an estimate of the Bank's ECL calculation for the entire population using the Bank's inputs and compare with the ECL balance calculated by the Bank; ○ Assess the accuracy of the assigned risk parameters (PD, LGD and cure rate);

• Management overlays used in the ECL calculation; • The identification and measurement of ECL for loans and advances to customers which were individually assessed; and We consider this to be a key audit matter due to the fact that a significant level of judgement is exercised by management in estimating the ECL on loans and advances to customers. Furthermore, we consider this to be a key audit matter, as loans and advances to customers are a significant part of the Group's total assets (37% of Total Assets of the Group).	○ Perform rank-ordering tests across different scenarios, stages and portfolios for PD, LGD, and ECL for all exposures; and ○ Review of the Bank's model back testing for the PD and performance monitoring. • Selected a sample of collateral valuations and engaged a property valuation specialist to assess whether the collateral valuations recognised by the Bank are reasonable. • Selected a sample of collateral valuations and assessed whether the assumptions used in the ECL calculation such as liquidation haircuts and indexation are determined in accordance with the Bank's policy and methodology. • Assessed whether any management overlays used in the ECL calculation are reasonable. • Performed analytical procedures on the ECL recognised, including staging analysis, to assess the reasonableness of the ECL recognised by the Bank. • Tested a sample of the individually assessed loan files performed by the Bank and assessed the measurement of the provisions, including the main assumptions and inputs used such as collateral value, liquidation date and estimated cash flows. • Read the minutes of the Provisioning Committee meetings where the inputs, assumptions and ECL adequacy were discussed and approved. • Assessed the adequacy of 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 Annual Financial Report but does not include the consolidated financial statements and our auditor's report thereon.

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.

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 and 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

Requirements of Article 10(2) of the EU Regulation 537/2014:

1. Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 12 June 2018 by the Annual General Meeting of the shareholders. Our appointment has been renewed annually by shareholder resolution. The total period of uninterrupted engagement appointment is 6 years.

2. 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 Bank, which we issued on 11 April 2024 in accordance with Article 11 of the EU Regulation 537/2014.

3. 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 management report.

Other Legal Requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the 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 management report. We have nothing to report in this respect.

Other Matter

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

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

Nicolas Pavlou
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited

Certified Public Accountants and Registered Auditors

Nicosia

15 April 2024

GLOSSARY AND DEFINITIONS

Name	Definition
Capital adequacy ratio (transitional)	Total Capital base divided by Risk Weighted Assets.
CET 1 ratio	Common Equity Tier 1 Capital divided by Risk Weighted Assets.
Cost of risk	Impairment change for the period on loan portfolio divided by average gross loans.
Cost to income ratio	Total expenses (as defined excluding one-off expenses) divided by total operating 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. 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).
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 and disposal of subsidiaries and associates	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 as per applicable EBA definition (new EBA definition was applicable as at 1 January 2021).
NPE ratio	NPE 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.

GLOSSARY AND DEFINITIONS (continued)

Name	Definition
OCI	Other Comprehensive Income
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.
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 simple 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 simple average of total equity at each reporting date from the beginning of the year.