AstroBank Group

Annual Financial Report
For the year ended 31 December 2019

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Board of Directors and Independent Auditors as at 31 December 2019

Board of Directors AstroBank Group	Shadi Karam Independent Non-Executive Chairman
	Maurice Sehnaoui Non-Executive Vice Chairman
	Constantinos St. Loizides Non-Executive Director (until 28 February 2019) Chairman of the Executive Committee & Managing Director (appointed on 1 March 2019)
	George Appios Executive Director & Deputy Managing Director
	Marios A. Savvides Executive Director
	Bassam Najib Diab Non-Executive Director
	Maria Dionyssiades Independent Non-Executive Director
	George Kourris Senior Independent Director
	George Liakopoulos Non-Executive Director (Resigned 30 May 2020)
	Elena Orfanidou Independent Non-Executive Director (appointed on 24 July 2018 and resigned 30 April 2019)
	Costas Partassides Independent Non-Executive Director
	Socrates Solomides Independent Non-Executive Director
	Andreas Vassiliou Independent Non-Executive Director
	Hikmat Abou Zeid Non-Executive Director (appointed on 16 September 2019)
Executive Committee	Constantinos St. Loizides Chairman (appointed on 1 March 2019)
	George Appios
	Marios A. Savvides
	Neoclis Neocleous
	Andreas Theodorides
Secretary	Elli Photiadou
Independent Auditors	Ernst and Young Cyprus Ltd Jean Nouvel Tower 6 Stasinou Avenue 1060 Nicosia Cyprus
Headquarters/Registered office	1 Spyrou Kyprianou Street CY-1065 Nicosia P O Box 25700 CY-1393 Nicosia Cyprus

The Consolidated Financial Statements for the year ended 31 December 2019 relate to AstroBank Public Company Limited ("the Bank") together with its subsidiaries ("the Group"). The Bank was the holding company of the Group as at 31 December 2019.

1 Incorporation, activities and branch network

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

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

The Bank provides banking and financial services through its branch network. As at 31 December 2019 the branch network included 16 branches as well as representative offices in Moscow and Athens.

2 Share capital

As at 31 December 2019, there were 19.761.754 issued ordinary shares with a nominal value of €1 each and 1.250.000 issued preference shares eligible as Tier 1 capital with a nominal value of €1 each.

On 17 January 2019, as part of the acquisition of USB Bank's business, there was an increase in the Bank's ordinary share capital and share premium by €5,6m and €38,4m respectively (5.648.267 shares at €1 nominal and €6,79 share premium per share) and an issue of preference shares eligible as Tier 1 capital of €10m (1.250.000 shares with a nominal value of €1 and a subscription price of €8 per share).

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

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

During the year 2020 and up to the date of approval of these consolidated financial statements, the Bank has issued and allotted 2.387.046 ordinary shares of nominal value €1 each at a share premium of €7,85 each, resulting in an increase in the issued share capital by €2.387.046 and an increase in share premium by €18.738.311. Following the conversion of the redeemable preference shares and the issue of share capital, the share capital and share premium amounted to €23.398.800 and €154.394.747 respectively.

3 Change of the Bank's name

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

4 Changes in group structure

Following the completion of the acquisition of USB Bank's business and the further capital increase to support its business growth, the following shareholders held more than 10% of the issued ordinary share capital of the Bank:

	9 July 2020		31 December 2019		17 January 2019		31 December 2018	
Shareholders	# of ordinary shares	% held	# of ordinary shares	% held	# of ordinary shares	% held	# of ordinary shares	% held
Holding M. Sehnaoui S.A.L.	4.938.061	21,1%	4.519.194	22,9%	4.680.484	23,7%	2.499.798	17,7%
Bassam Najib Diab	3.018.694	12,9%	2.292.694	11,6%	2.292.694	11,6%	1.499.879	10,6%
Piraeus Bank S.A.	2.490.000	10,6%	2.490.000	12,6%	2.490.000	12,6%	2.490.000	17,6%
WG Cyprus (Holding) SAL	2.263.337	9,7%	2.263.337	11,5%	2.263.337	11,5%	1.749.858	12,4%

5 Future developments/ prospects

The Group's strategy is focused towards long term growth (organic and by acquisition), speed of decision-making and client service. This is to be achieved through strengthening the sales and support teams, improvement in marketing, product development and response times. At the same time, in the short to medium term, priority remains the reduction of non-performing loans through customer restructuring, consensual settlement arrangements, debt for asset swaps, foreclosures and effective capital management.

In addition to the recent acquisition of the USB Bank's business (completed on 18 January 2019), the Bank aims to increase its footprint in the lending market through the utilisation of its excess liquidity. With this acquisition, the Bank strengthens significantly its position in the Cyprus market by leveraging the synergies it creates. Following the acquisition of USB Bank's business, the Group's strategic targets include the reduction of operating expenses as a proportion of income and synergistic cost savings.

On 26 November 2019 the Bank and National Bank of Greece S.A ('NBG') signed an agreement under which the Bank will acquire the whole of the share capital of NBG (Cyprus) Ltd (post carve-out of problematic loans) for a cash consideration of €38m (as adjusted depending on the audited financial statements` net asset value of NBG (Cyprus) Ltd as at the last calendar day of the month in which all conditions precedent have been fulfilled). The agreement is expected to be completed by the end of 2020 subject to the satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited financial statements as at the closing month following conditions precedent satisfaction) by the seller and successful completion of the capital raise on the part of the Bank.

On 28 February 2020 the Bank and Arab Jordan Investment Bank S.A (AJIB) signed an agreement for the sale and purchase of the branch business of AJIB Bank in Cyprus. Under this agreement, the Bank will acquire the banking business and undertaking, assets, collaterals and liabilities of AJIB's branch in Cyprus as well as transfer of all staff under their current terms of employment, excluding only certain assets of AJIB's Cyprus branch. The completion of the agreement is subject to the satisfaction of conditions precedent including, the written unconditional approvals of the transaction from both the Central Bank of Cyprus and the Central Bank of Jordan, the unconditional approval by the Commission for the Protection of Competition and exchange of certain required information by the two parties.

The Bank, following an international competitive bidding process, reached an agreement on 31 December 2019, with Qualco Holdco Limited, for the sale to the latter of 74,9% of Trusset Asset Management Limited, a newly formed company (owned 100% by the Bank), for the management of the Bank's portfolio of Non Performing Exposures and Real Estate Owned Assets. The agreement is expected to be completed upon satisfaction of conditions precedent.

6 Implications of the COVID-19 outbreak

In light of the spread of COVID-19 across the globe, a variety of measures have been, and continue to be, taken by European governments to prevent the transmission of the virus along with economic support and relief measures aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such relief measures include, but are not limited to, moratoria on repayment of loans, overdraft facilities and mortgages, loan guarantees as well as other forms of business support targeted at individual firms or specific industries.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

The Bank will continue to monitor the situation, taking all necessary measures to mitigate the impact on its operations and financial performance. Furthermore, once there is more clarity on the impact on its financial performance, the Bank will proceed with further updates.

For further details and recent developments on the issue refer to Note 4 Operating Environment and Note 46 Events After the Reporting Period of the Consolidated Financial Statements.

7 Financial results

Consolidated Income Statement

The Consolidated Income Statement for the year ended 31 December 2019 is not comparable to the Consolidated Income Statement for the year ended 31 December 2018 as the year 2019 includes the results of the acquired USB Bank's business.

	2019 €	2018 €
Net interest income	46.350.124	22.620.590
Net fee and commission income	13.923.575	11.520.529
Other income	1.838.380	934.268
Net gains on financial instrument transactions	7.561.142	1.038.543
Gains arising from the derecognition of financial assets measured at amortised cost	17.035.443	7.966.575
Operating income	86.708.664	44.080.505
Reversal of previous recognised impairment on own used properties	1.830.295	-
Staff expenses	(34.711.174)	(20.755.515)
Depreciation and amortisation expense	(4.785.738)	(1.311.914)
Other operating expenses	(18.084.371)	(12.708.604)
Profit before impairment losses on financial assets and non-financial assets	30.957.676	9.304.472
Reversal of impairment losses on financial assets	856.621	1.295.778
Impairment losses on non-financial assets	(4.060.164)	(1.009.989)
Profit before impairment of goodwill	27.754.133	9.590.261
Impairment of goodwill	(8.526.187)	-
Profit before tax	19.227.946	9.590.261
Income tax	(2.481.707)	380.424
Profit for the year	16.746.239	9.970.685

7 Financial results (continued)

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position for the year ended 31 December 2019 is not comparable to the Statement of Financial Position for the year ended 31 December 2018 as the year 2019 includes the results of the acquired USB Bank's business.

	2019 €	2018 €
Assets		
Cash and balances with Central Banks	241.825.289	200.763.030
Placements with other banks	90.502.226	107.672.594
Derivative financial instruments	225.113	63.173
Financial assets at fair value through profit or loss	30.999.026	22.909.165
Financial assets at fair value through other comprehensive income	6.227.087	6.990.945
Financial assets at amortised cost	698.532.762	371.357.596
Loans and advances to customers	997.890.657	578.632.744
Other assets	9.428.048	1.777.592
Investment properties	-	75.827.500
Stock of property	147.664.972	-
Property and equipment	27.813.598	24.487.944
Intangible assets	3.047.619	1.125.231
Right of use assets	8.132.746	-
Deferred tax asset	3.789.023	5.857.226
Total assets	2.266.078.166	1.397.464.740
Liabilities		
Amounts due to other banks and deposits from banks	17.921.226	15.140.202
Derivative financial instruments	156.006	807.898
Deposits and other customer accounts	2.007.425.085	1.220.425.492
Current tax liability	111.225	107.887
Lease liabilities	5.836.864	-
Other liabilities	50.976.435	48.554.765
Deferred tax liability	1.285.019	635.795
Total liabilities	2.083.711.860	1.285.672.039
Total equity	182.366.306	111.792.701
Total equity and liabilities	2.266.078.166	1.397.464.740

7 Financial results (continued)

Key Performance Indicators		2019	2018
Asset quality[1]	NPE Ratio	42,0%	42,6%
	NPE Coverage Ratio	54,9%	54,0%
Capital	Total Capital Ratio (Transitional)	13,4%	14,3%
Balance Sheet	Total Assets	€2.266m	€1.397m
	Gross Loans and advances to customers	€1.158m	€760m
	Accumulated expected credit losses on loans and advances to customers	€160m	€181m
	Deposits and other customer accounts	€2.007m	€1.220m
Liquidity	Liquid assets / Deposits	52,1%	56,3%
	Net Loans/Deposits	49,7%	47,4%
	Liquidity Coverage Ratio	324,0%	552,9%
Efficiency	Net interest margin	2,3%	1,9%
	Fee and commission income/ Total income	16,1%	26,1%
	Cost/ Income[2]	82,6%	96,3%
Profitability	Return on Average Assets	0,8%	0,8%
	Return on Average Equity	9,6%	8,7%

[1] NPE ratio calculated using the Gross loans balance before the residual fair value adjustment on initial recognition relating to loans acquired from USB Bank. The equivalent ratio using the Gross loans balance after the fair value adjustment is 34,6%.

The allowance on credit impaired loans for the calculation of the Provision Coverage ratio comprises of (i) provision for expected credit loss to cover credit risk on loans and advances to customers (ii) the residual fair value adjustment on initial recognition relating to loans acquired from USB Bank. The equivalent ratio excluding the residual fair value adjustment is 39,9%.

[2] Excluding the gains arising from the derecognition of financial assets measured at amortised cost

8 Financial performance overview

Income statement analysis

The financial performance of the Group for the year ended 31 December 2019 is set out on pages 11 to 16.

Net interest income (NII) for the year ended 31 December 2019 totaled €46.350.124 (2018: €22.620.590) and net interest margin (NIM) for the year was 2,3% (2018: 1,9%). The NII increase reflects increased interest income on loans and advances due to increase in gross loans mainly because of the acquisition of USB Bank business, decreased interest expense on deposits due to decrease of the local deposit rate despite the fact that deposits have increased significantly from last year and increased interest income from debt securities following the diversification of the excess liquidity into higher yielding instruments.

Non-interest income for the year ended 31 December 2019 amounted to €40.358.540 (2018: €21.459.915). Non-interest income mainly comprised net fee and commission income of €13.923.575 (2018: €11.520.529), net gains on financial instrument transactions €7.561.142 (2018: €1.038.543) and gains arising from the disposal of financial assets measured at amortised cost €17.035.443 (2018: €7.966.575).

Profit before impairment losses on financial assets and non-financial assets for the year ended 31 December 2019 amounted to €30.957.676 compared to €9.304.472 in 2018 with the Profit for the year being €16.746.239 compared to a profit of €9.970.685 in 2018.

Statement of financial position analysis

The Group's total assets amounted to €2.266.078.166 as at 31 December 2019 (31 December 2018: €1.397.464.740), presenting an increase of 62,2% which reflects the acquisition of the USB Bank business.

Deposits

Customer deposits totaled €2.007.425.085 at 31 December 2019 (31 December 2018: €1.220.425.492), increased by 64,5%, mainly due to the acquisition of the USB Bank business. They comprised of deposits in Euro and deposits in foreign currencies, mostly US Dollars and British pounds.

Deposits by type	31 December 2019	% of total deposits	31 December 2018	% of total deposits
Current accounts	€1.028,8m	51,3%	€652,8m	53,5%
Savings accounts	€276,4m	13,7%	€114,6m	9,4%
Term deposits	€702,2m	35,0%	€453,0m	37,1%
Total deposits	€2.007,4m	100,0%	€1.220,4m	100,0%

Customers deposits to total assets ratio stood at 88,5% as at 31 December 2019 (31 December 2018: 87,3%).

8 Financial performance overview (continued)

Statement of financial position analysis (continued)

Loans and advances to customers

Gross loans (after the residual fair value adjustment on initial recognition) totaled €1.158.072.576 at 31 December 2019 compared to €759.741.111 at 31 December 2018. On 31 December 2019, the Group net loans and advances to customers totaled €997.890.657 (compared to €578.632.744 at 31 December 2018). Increase in gross and net loans relates mainly to the acquisition of USB Bank business.

The net loans to deposits ratio stood at 49,7% as at 31 December 2019 (31 December 2018: 47,4%).

Gross loans balance by type:

	31 December 2019	31 December 2018	Growth %
Consumer	€124,8m	€85,8m	45,5%
Housing	€173,4m	€125,7m	38,0%
Credit cards	€11,0m	€7,9m	38,6%
Corporate	€848,9m	€540,3m	57,1%
Gross loans	€1.158,1m	€759,7m	52,4%

Loan Portfolio Quality

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

Non-Performing Exposures (NPEs) as defined by EBA amounted to €547.642.666 (before the residual fair value adjustment on initial recognition) as at 31 December 2019 (2018: €323.543.730) representing 42,0% of the gross loans amounting to €1.303.664.652 (before the residual fair value adjustment on initial recognition) (2018:€759.741.111) compared to 42,6% at 31 December 2018.

Accumulated provision for expected credit loss to cover credit risk (including the residual fair value adjustment on initial recognition) amounted to €305.773.996 as at 31 December 2019 (31 December 2018: €181.108.367) and represented 23,5% of the total gross loans of €1.303.664.652 (before the residual fair value adjustment on initial recognition) (31 December 2018: 23,8%). The provision coverage on credit impaired loans improved to 54,9% at 31 December 2019 compared to 54,0% at 31 December 2018.

Further details on the loan portfolio of the Group are disclosed in Notes 22 and 37 to the Consolidated financial statements for the year ended 31 December 2019.

Debt for asset swaps implemented during the year ended 31 December 2019

During the year ended 31 December 2019, the Group on-boarded €15.792.223 (31 December 2018: €7.917.195) of assets via the execution of debt for asset swaps and completed disposals of €3.475.020 (31 December 2018: €9.025.125). Additional €63.045.190 of assets were acquired via the acquisition of USB Bank business.

As at 31 December 2019, assets acquired by the Group via debt for asset swaps had a carrying value of €147.664.972.

	31 December 2019	31 December 2018
Repossessed assets held by the Group	€	€
Opening balance	75.827.500	64.730.039
Transfer from financial assets at fair value through profit or loss	-	12.225.044
Acquired via the acquisition of USB Bank business	63.045.190	-
On boarded during the period	15.792.223	7.917.195
Disposals	(3.475.020)	(9.025.125)
Impairment	(3.524.921)	-
Other movements	-	(19.653)
Closing balance	147.664.972	75.827.500

9 Capital base

The primary objective of the Bank's capital management is to ensure compliance with the relevant regulatory capital requirements and maintenance of healthy capital adequacy ratios in order to support its growth and maximise the value for its shareholders. As at 31 December 2019 the Bank's capital adequacy ratio stood at 13,4% and was in compliance with the regulatory minimum Overall Capital Requirement ('OCR') of 13,35% but below OCR including Pillar II Guidance ('P2G').

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395). The amount subject to transitional provisions is added back to the CET1 capital and is derived from the following:

- Increased credit loss provisions from the implementation of the IFRS 9 on 1 January 2018 compared to the credit loss provisions under IAS39 net of any tax impact. The impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually.
- Additional credit loss provisions incurred after IFRS 9 implementation which rise unexpectedly due to a worsening macroeconomic outlook from non-credit impaired financial assets.

10 Liquidity risk

As at and during the year ended 31 December 2019, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank. The liquidity coverage ratio stood at 324,0% (31 December 2018: 552,9%) compared to a minimum requirement of 100%.

Details of the liquidity risk management are disclosed in Note 37 to the Consolidated financial statements for the year ended 31 December 2019.

11 Going concern

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

The Board of Directors and Management, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Capital
As at 31 December 2019 the Bank's estimated capital adequacy ratio stood at 13,4% which is above the minimum Overall Capital Requirement ('OCR') of 13,35% but below the OCR including Pillar II Guidance ('P2G'). Following the capital increases described in Note 46 as of the date of issuance of these financial statements the Bank's estimated capital adequacy ratio exceeds the OCR including Pillar II Guidance ('P2G').

During the year the Bank has been advised by the Central Bank of Cyprus for its designation as an "Other Systemically Important Institution" ('O-SII') and the requirement for an increase in its OCR with the introduction of the O-SII buffer of 0,5% with gradual applicability. Following Covid-19 relaxations introduced, the O-SII buffer will remain constant at 0,25% throughout 2020 and 2021, will rise to 0,375% on 1st January 2022 and finally increase to 0,5% on 1st January 2023. As a result, the OCR of the Bank as of 1 January 2020 has increased to 13,60%.

Liquidity
The Bank maintains healthy liquidity levels, with a Liquidity Coverage Ratio as at 31 December 2019 of 324,0%, well in excess of the regulatory minimum of 100%. Based on the projections of management it is expected, that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

In reaching its conclusion, the Board of Directors and Management have considered the following anticipated actions and uncertainties surrounding certain events as listed below:

- The Bank's business plan for the next 12 months, in particular its ability to limit the amount of new lending it extends as well as other measures, so as to enable it to meet the relevant capital adequacy requirements at all times.
- Any short and medium term economic impact of Covid-19 pandemic to the world and Cyprus economy in general and the Bank in particular to the extent this transpires to be different from the current expectations.
- The economic and political environment in Lebanon and its potential impact on the Bank to the extent this transpires to be different from the current expectations.

11 Going concern (continued)

- The regulatory relaxations granted by regulators to enable banks to deal with the impact of Covid-19 as well as enable them to provide additional liquidity to the economy, including the timeframe through which such relaxations will be applicable.
- The current and planned capital raising initiatives including their timing and actual amount.
- The acquisition of the Cyprus branch of AJIB, including its timing and expected positive impact on the Bank's capital.
- The completion of the disposal of 74,9% of Trusset Asset Management Limited to Qualco Holdco Ltd including its timing and expected positive impact on capital.
- The completion of the acquisition of NBG (Cyprus) Ltd including its timing and expected positive impact on capital.

Based on its assessment, the Board of Directors and Management believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment, as a going concern for a period of 12 months from the date of approval of the Financial Statements and have satisfied themselves of the Group's ability to continue as a going concern over this period.

12 Principal risks and uncertainties

Like any banking group, 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.

The Group activities are mainly in Cyprus therefore its performance is impacted by changes in the Cyprus operating environment.

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 35 to these consolidated financial statements for the year ended 31 December 2019.

As explained in Note 37 to the consolidated financial statements, the Group's risk management program focuses on the unpredictability of the economic environment in which it operates and seeks to minimise potential adverse effects on the Group's financial performance. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and to ensure adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

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

13 Events after the reporting date

The events after the reporting date are disclosed in Note 46 of the Consolidated financial statements for the year ended 31 December 2019.

By Order of the Board,

Constantinos Loizides
Chairman of the Executive Committee and Managing Director
9 July 2020

Consolidated financial statements

Consolidated Income Statement
for the year ended 31 December 2019

	Note	2019 €	2018 €
Interest income		50.147.340	27.537.729
Income similar to interest income		2.141.328	1.407.626
Interest expense		(5.938.544)	(6.324.765)
Net interest income	7	46.350.124	22.620.590
Fee and commission income		16.743.555	13.730.287
Fee and commission expense		(2.819.980)	(2.209.758)
Net fee and commission income	8	13.923.575	11.520.529
Other income	9	1.838.380	934.268
Net gains on financial instrument transactions	10	7.561.142	1.038.543
Gains arising from the derecognition of financial assets measured at amortised cost	21	17.035.443	7.966.575
Total net income		86.708.664	44.080.505
Reversal of previous recognised impairment on own used properties	26	1.830.295	-
Staff expenses	11	(34.711.174)	(20.755.515)
Depreciation and amortization expenses	12	(4.785.738)	(1.311.914)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF)	13	(3.010.946)	(1.784.114)
Operating expenses	13	(15.073.425)	(10.924.490)
Profit before impairment losses on financial assets and non-financial assets		30.957.676	9.304.472
Reversal of impairment losses on financial assets	14	856.621	1.295.778
Impairment losses on non-financial assets	25,26	(4.060.164)	(1.009.989)
Profit before impairment of goodwill		27.754.133	9.590.261
Impairment of goodwill	27	(8.526.187)	-
Profit before tax		19.227.946	9.590.261
Income tax	15	(2.481.707)	380.424
Profit for the year		16.746.239	9.970.685

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	2019 €	2018 €
Profit for the year after tax	16.746.239	9.970.685
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Revaluation gain on own use properties (Note 34)	672.678	-
Deferred tax on revaluation of own used properties (Note 34)	(81.452)	-
Equity investments at fair value through other comprehensive income (FVOCI) – net change in fair value (Note 34)	(763.859)	677.705
	(172.633)	677.705
Items that are or may be reclassified subsequently to profit or loss:		
Debt instruments at fair value through other comprehensive income:		
Net losses on investments in debt instruments measured at FVOCI	-	(425.299)
Changes in allowance for expected credit losses	-	(337.643)
Reclassification to consolidated income statement upon disposal	-	(8.052.913)
	-	(8.815.855)
Other comprehensive loss for the year after tax	(172.633)	(8.138.150)
Total comprehensive income for the year	16.573.606	1.832.535

Consolidated Statement of Financial Position
as at 31 December 2019

	Note	31 December 2019 €	31 December 2018 €
Assets			
Cash and balances with Central Banks	16	241.825.289	200.763.030
Placements with other banks	17	90.502.226	107.672.594
Derivative financial instruments	18	225.113	63.173
Financial assets at fair value through profit or loss	19	30.999.026	22.909.165
Financial assets at fair value through other comprehensive income	20	6.227.087	6.990.945
Financial assets at amortised cost	21	698.532.762	371.357.596
Loans and advances to customers	22	997.890.657	578.632.744
Other assets	23	9.428.048	1.777.592
Investment property	24	-	75.827.500
Stock of property	25	147.664.972	-
Property and equipment	26	27.813.598	24.487.944
Intangible assets	27	3.047.619	1.125.231
Right of use assets	28	8.132.746	-
Deferred tax asset	29	3.789.023	5.857.226
Total assets		**2.266.078.166**	**1.397.464.740**
Liabilities			
Amounts due to other banks and deposits from banks	30	17.921.226	15.140.202
Derivative financial instruments	18	156.006	807.898
Deposits and other customer accounts	31	2.007.425.085	1.220.425.492
Current tax liability		111.225	107.887
Lease liabilities	28	5.836.864	-
Other liabilities	32	50.976.435	48.554.765
Deferred tax liability	29	1.285.019	635.795
Total liabilities		**2.083.711.860**	**1.285.672.039**
Equity			
Share capital	33	19.761.754	14.113.487
Share premium	33	126.906.436	88.554.704
Preference shares	33	10.000.000	-
Revaluation and other reserves	34	544.201	716.834
Retained earnings	34	25.153.915	8.407.676
Total equity		**182.366.306**	**111.792.701**
Total equity and liabilities		**2.266.078.166**	**1.397.464.740**

On 9 July 2020 the Board of Directors of AstroBank Public Company Limited approved these consolidated financial statements for issue.

Constantinos Loizides, Chairman of the Executive Committee and Managing Director

George Appios, Deputy Managing Director

Marios A. Savvides, Executive Director

Paola Ioannou, Chief Financial Officer

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

	Share Capital (Note 33) €	Share Premium (Note 33) €	Preference shares (Note 33) €	Fair value Reserve (Note 34) €	Retained earnings (Note 34) €	Total €
Balance at 1 January 2018	14.113.487	88.554.704	-	8.408.033	5.121.259	116.197.483
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	446.951	(6.684.268)	(6.237.317)
Restated balance at 1 January 2018	14.113.487	88.554.704	-	8.854.984	(1.563.009)	109.960.166
Total comprehensive income for the year						
Profit for the year	-	-	-	-	9.970.685	9.970.685
Other comprehensive loss for the year	-	-	-	(8.138.150)	-	(8.138.150)
Total comprehensive loss for the year	-	-	-	(8.138.150)	9.970.685	1.832.535
Balance as at 31 December 2018	14.113.487	88.554.704	-	716.834	8.407.676	111.792.701
Balance at 1 January 2019	14.113.487	88.554.704	-	716.834	8.407.676	111.792.701
Total comprehensive income for the year						
Profit for the year	-	-	-	-	16.746.239	16.746.239
Other comprehensive profit for the year	-	-	-	(172.633)	-	(172.633)
Total comprehensive income for the year	-	-	-	(172.633)	16.746.239	16.573.606
Issue of ordinary shares (Note 33)	5.648.267	38.351.732	-	-	-	43.999.999
Issue of preference shares (Note 33)	-	-	10.000.000	-	-	10.000.000
Balance as at 31 December 2019	19.761.754	126.906.436	10.000.000	544.201	25.153.915	182.366.306

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

	Notes	2019	2018
		€	€
Cash flows from operating activities			
Profit for the period before tax		19.227.946	9.590.261
Adjustments for:			
Depreciation of property and equipment, depreciation of right of use assets and amortisation of intangible assets	12	4.785.738	1.311.914
Gain on disposal of investment property and stock of property	25	(258.777)	(83.462)
Fair value gain on financial assets at fair value through profit or loss	19	(4.923.087)	412.264
Gains arising from the derecognition of financial assets measured at amortised cost	21	(17.035.443)	(7.966.575)
Reversal of previous recognised impairment on own used properties		(1.830.295)	-
Impairment of Goodwill	27	8.526.187	-
Finance lease interest	28	98.259	-
Impairment of non-financial assets		4.060.164	1.009.989
Foreign exchange difference on investments		(1.563.702)	(4.419.383)
Amortisation of debt securities		2.172.505	342.554
Dividend income	9	(767.057)	(768.600)
Distribution from fund participation	9	(632.228)	-
Reversal of expected credit loss to cover credit risk on loans and advances to customers		(2.698.604)	(979.859)
(Provision for)/ reversal of expected credit loss to cover credit risk on contractual commitments and guarantees	14	349.930	(40.390)
(Provision for) / reversal of expected credit loss to cover credit risk on other financial instruments	14	1.253.923	(275.529)
		10.133.232	(1.866.816)
Changes in:			
Loans and advances to customers (note 1 below)		(130.917.845)	(78.073.340)
Deposits from and amounts due to other banks and customer accounts		138.375.855	129.885.023
Change in mandatory deposits with the Central Bank of Cyprus		(635.048)	(3.641.455)
Other assets		(4.162.738)	888.829
Net position in derivative financial instruments		(813.832)	306.882
Other liabilities		(4.651.528)	26.785.400
Cash generated from operations		7.328.096	74.284.523
Tax Paid		-	-
Net cash generated from operations		7.328.096	74.284.523
Cash flows used in investing activities			
Purchase of property and equipment		(1.397.041)	(2.146.413)
Purchase of intangible assets	27	(1.210.884)	(767.793)
Additions of financial assets at fair value through profit and loss	19	(297.081.890)	(168.747.933)
Disposal of financial assets at fair value through profit and loss	19	295.445.132	167.212.668
Acquisition of debt securities at amortised cost		(898.151.998)	(575.476.745)
Disposal of debt securities at amortised cost	21	696.905.738	422.062.555
Acquisition of financial assets at fair value through other comprehensive income		-	(65.310)
Disposal of investment properties	24	255.000	9.108.587
Disposal of stock of property	25	3.478.797	-
Proceeds from distribution from fund participation	9	632.228	-
Dividend received	9	767.057	768.600
Acquisition of USB business net of cash acquired (note 2 below)		155.842.186	-
Net cash used in investing activities		(43.883.447)	(148.051.784)
Cash flows from financing activities			
Issue of share capital	33	53.999.999	-
Lease payments		(1.057.474)	-
Net cash generated from financing activities		52.942.525	-

		2019	2018
		€	€
Net increase/(decrease) in cash and cash equivalents		16.387.173	(73.767.261)
Cash and cash equivalents (Note 16)			
At the beginning of the year	16	294.697.978	368.465.239
Net increase/(decrease) in cash and cash equivalents		16.387.173	(73.767.261)
At the end of the year	16	311.085.151	294.697.978

(1) Non-cash transactions from operating activities

During the year the Group acquired property for the amount of €19,3m (2018: €3,0m) via the execution of debt for asset swaps as settlement for loan repayments. These are not included in cash flows from operating activities as they do not constitute cash flow movements.

(2) Acquisition of USB Bank business

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

1. CORPORATE INFORMATION

Country of incorporation

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

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

Change of the Parent Bank's name

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

Principal activities

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

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

Consolidated financial statements

On 9 July 2020 the Board of Directors of the AstroBank Public Company Limited authorised for issue the Consolidated Financial Statements (the "Financial Statements") for the year ended 31 December 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The Consolidated Financial Statements have been prepared on a historical cost basis, except for properties held for own use, investment properties, stock of property investments at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments that have been measured at fair value.

All acquired assets and liabilities of USB Bank have been recognised at fair value on the acquisition date. (Refer to Note 43 for further analysis)

The financial statements are presented in Euro (€), which is the functional currency of the Bank. A dot is used to separate thousands and a comma is used to separate decimals.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019.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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

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

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

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

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

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

The details of the subsidiaries whose results are consolidated in these consolidated financial statements are disclosed in Note 36.

2.3 Business combinations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Business combinations (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognised in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

2.4 Comparatives

Reclassifications to comparative information were made to conform to current year presentation as follows:

Interest income on placements with other banks amounting to €1.210.931 was reclassified from 'Interest expense' to 'Interest income' in the comparative information for the year ended 31 December 2018.

The Group has not restated comparative information for 2018 for lease arrangements within the scope of IFRS 16 where the Group acts as a lessee, as the Group has used the modified retrospective approach as explained in Note 6.1.

2.5 Accounting policies and changes in accounting policies and disclosures

The accounting policies adopted in the consolidated financial statements are consistent with the accounting policies adopted in the financial statements for the year ended 31 December 2018 , except for the adoption of new and revised standards, interpretations and amendments to existing standards with effect from 1 January 2019 and onwards explained in Note 2.5.1 below.

2.5.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 "Leases"

The standard is effective for annual periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model and there is no distinction between operating and finance leases. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The impact on adoption of IFRS16 is disclosed in Note 6.2 of the Consolidated Financial Statements. The new accounting policy is described in Note 2.22 below and the Group's significant judgement, estimates and assumptions are described in Note 5.9.

IFRS 9 (Amendments) "Prepayment Features with Negative Compensation"

In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)".This amendment allows financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The adoption of this amendment did not have any impact on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.5.1 New and amended standards and interpretations (continued)

IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The adoption of this interpretation did not have any impact on the consolidated financial statements.

IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures"

In October 2017, the IASB issued "Long-term interests in Associates and Joint Ventures" (Amendments to IAS 28). The amendments clarify that an entity applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The adoption of this amendment did not have any impact on the consolidated financial statements.

IAS 19: Plan Amendment, Curtailment or Settlement (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. They require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The adoption of this amendment did not have any impact on the consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

- IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Standards and Interpretations that are issued but not yet effective

2.6.1 Standards and Interpretations issued by the IASB and adopted by the EU

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group does not expect this framework to have a material impact on its results and financial position.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. They clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group does not expect these amendments to have a material impact on its results and financial position.

IFRS 3: Business Combinations (amendments)

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

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

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In June 2019, the IASB issued an Exposure Draft which proposes some amendments to IFRS 17, including a proposal to defer the mandatory effective date of IFRS 17 by one year so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. In March 2020 the IASB discussed and voted in favour of the amendment to IFRS 17 to defer its effective date (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. IFRS 17 replaces IFRS 4 and it establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. IFRS 17 divides insurance contracts into groups it will recognise and measure at a risk-adjusted present value of the future cash flows plus an amount representing the unearned profit in the group of contracts (the contractual service margin).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IFRS 17: Insurance Contracts (continued)

It also recognises profit from a group of insurance contracts over the period the entity provides insurance coverage and as the entity is released from risk. If a group of contracts is expected to be onerous over the remaining coverage period, an entity recognises the loss immediately. The standard contains a core measurement approach, the 'general model', as well as an adaptation of the general model, the 'variable fee approach' that should be applied to certain types of contracts with direct participation features. If certain criteria are met, an entity may apply a simplified measurement approach, the 'premium allocation approach', which allows an entity to measure the amount of remaining coverage by allocating the premium over the coverage period (mainly applicable for non-life contracts with up to one-year coverage). The Group does not expect these amendments to have any impact on its results and financial position.

Amendments to IAS 1 Presentation of Financial Statements: classification of Liabilities as Current or Noncurrent

The IASB issued amendments to IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: (a) what is meant by a right to defer settlement (b) that a right to defer must exist at the end of the reporting period (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments do not affect its classification as current or non-current if, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument. The amendments are effective for or annual periods beginning on or after 1 January 2022, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

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 Group does not expect these amendments to have a material impact on its results and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation

a. Functional and presentation currency

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

b. Transactions and balances

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

Foreign currency differences arising on retranslation are recognised in the consolidated income statement (in other income).

2.8 Revenue from contracts with customers

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

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

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

2.8.1 Contract balances

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Revenue from contracts with customers (continued)

2.8.2 Fee and commission income

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

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

- fees earned from services that are provided over a certain period of time, such as asset management and custody services

- fees earned from point in time services such as executing transactions and brokerage fees.

Over time services

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

Point in time services

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

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

2.8.3 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 i.e. upon approval by the general meeting of the shareholders.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Interest income and similar income

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

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

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

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

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

Interest income from financial assets at FVTPL is presented within the caption 'Income similar to interest income'.

The effective interest rate method

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

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

Negative interest income

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

2.10 Interest expense

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

2.11 Fee and commission expense

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

2.12 Tax

Current income tax and deferred tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Tax (continued)

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

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

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

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

Indirect Tax Value Added Tax (VAT)

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

- when the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case, the VAT suffered is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- when receivables and payables are stated with the amount of VAT charged. The amount of VAT recoverable from, or payable to the tax authorities is included as part of receivables or payables in the consolidated statement of financial position.

2.13 Financial instruments - initial recognition

2.13.1 Date of recognition

"Balances with central banks", "Deposits by banks', 'Customer deposits", "Loans and advances to customers" 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.

2.13.2 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial instruments - initial recognition (continued)

2.13.2 Initial recognition and measurement of financial instruments (continued)

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.

2.13.3 Measurement categories of financial assets and liabilities

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

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

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

2.14 Classification and measurement of financial assets and liabilities

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Business model assessment(continued)

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

Contractual cash flows characteristics test (SPPI assessment)

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

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

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

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

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

2.14.1 Derivative financial instruments

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.

- It is settled at a future date.

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

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

Interest income and expense are included in the 'Income similar to interest income' and "Interest expense" captions respectively in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.14.2 Financial assets measured at amortised cost

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Amortised cost is calculated by taking into account any discount or premium on acquisition that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Expected credit losses to cover credit risk on loans and advances to customers" in the case of loans and advances to customers and in 'Expected credit losses to cover credit risk of other financial instruments' for all other financial instruments.

2.14.3 Debt instruments measured at FVOCI

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2.14.4 Financial assets or financial liabilities held for trading

Financial assets held for trading represent assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in "Net gains on financial instrument transactions" in the consolidated income statement. Interest income is included in the caption "Income similar to 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.14.5 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 gains on financial instrument transactions" in the consolidated income statement.

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

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

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

2.14.6 Equity instruments measured at FVOCI

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

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

2.14.7 Other financial liabilities

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

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

2.15 Reclassification of financial assets and liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Derecognition of financial assets and financial liabilities

2.16.1 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.

2.16.2 Financial liabilities

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

2.17 Forborne and modified loans

The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximise recovery.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Impairment of financial assets

2.18.1 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.

Under IFRS 9 no impairment loss is recognised on equity investments.

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

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

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

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

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

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

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

The Group calculates 12-month ECLs and lifetime ECLs either on an individual basis or collective basis.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Impairment of financial assets (continued)

2.18.2 Significant increase in credit risk

Significant credit risk increase for loans and advances to customers

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

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

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

Low credit risk simplification is adopted for debt security instruments, loans and advances to banks and balances with central banks with external credit ratings that are rated as investment grade. For debt security instruments and balances with Central banks and placements with other banks with external credit ratings that are rated as investment grade, the assessment of low credit risk is based on the external credit rating. For debt securities and balances with Central banks and placements with other banks which are below investment grade, the low credit risk simplification does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date. Significant deterioration in credit risk is considered to have occurred when the rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investment grade to speculative and then to highly speculative).

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

2.18.3 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Impairment of financial assets (continued)

2.18.3 Credit impaired and definition of default (continued)

(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.

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

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

At the time an account ceases to be considered as NPE it exits Stage 3. If the loan is 30 days past due twice over the last 12 months it is transferred to Stage 2, otherwise it is transferred to Stage 1.

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

2.18.4 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.

In regards to the LGD, the forward looking information is incorporated via the property indices for the types of properties (residential and commercial).

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 6 years.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Impairment of financial assets (continued)

2.18.5 Inputs into measurement of ECLs

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

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

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

a. Probability of default (PD)

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

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

- Use historic default rates to estimate the through the cycle probabilities of default;

- Establish a model linking the default rates to macroeconomic variables thus, mapping external market dynamics onto Group's internal credit risk parameters i.e. to fit a distribution function to the observed cumulative default rates using a transformation of the Weibull distribution;

- Obtain the point in time (PIT) PDs by adjusting the Through the Cycle (TTC) conditional PD profile from step 1 using the forecasted default rate established in step 2 for years 1-3 and forecasted for the default rates based on appropriate long term assumptions with regards to economic activity.

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

b. Loss given default (LGD)

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

The structure of the LGD model considers

- Curing where the probability of cure model was derived based on historical observations.

- Non-curing including cash recovery or realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

c. Exposure at default

EAD represents the expected exposure in the event of a default during the life of a financial instrument. EAD methodology is differentiated in the following categories: revolving and non-revolving exposures. In case of revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. The credit conversion factor model is derived based on historical data from the last 6 years. For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date. ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Impairment of financial assets (continued)

2.18.6 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.

2.18.7 Purchased or originated credit impaired financial assets (POCI)

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

2.19 Write-offs

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

2.20 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.21 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 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.

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

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of €222.756 (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below €5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Leases - The Group as a lessee (continued)

Lease term

Leases are monitored for significant changes that could trigger a change in the lease term and at the end of each reporting period and the impact on the lease liability and the RoU asset is reassessed.

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). The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised. Judgement is used in calculating the lease term, which is further disclosed in Note 6.2.

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.

2.22.1 Operating leases (policy applicable before 1 January 2019)

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term in 'Other operating expenses'.

2.23 Leases - The Group as lessor

2.23.1 Finance leases

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

2.23.2 Operating leases

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

2.24 Intangible assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Property and equipment

Property and equipment are initially measured at cost.

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

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

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

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

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

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

2.26 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.

2.27 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Investment property (continued)

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

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

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

2.28 Stock of property

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

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

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

2.29 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.

2.30 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.

2.31 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.

2.32 Financial guarantees, letters of credits and undrawn loan commitments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.33 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.

2.34 Employee Benefits

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

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

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

2.35 Share capital

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

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

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

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

3. GOING CONCERN

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

The Board of Directors and Management, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Capital
As at 31 December 2019 the Bank's estimated capital adequacy ratio stood at 13,4% which is above the minimum Overall Capital Requirement ('OCR') of 13,35% but below the OCR including Pillar II Guidance ('P2G'). Following the capital increases described in Note 46 as of the date of issuance of these financial statements the Bank's estimated capital adequacy ratio exceeds the OCR including Pillar II Guidance ('P2G').

During the year the Bank has been advised by the Central Bank of Cyprus for its designation as an "Other Systemically Important Institution" ('O-SII') and the requirement for an increase in its OCR with the introduction of the O-SII buffer of 0,5% with gradual applicability. Following Covid-19 relaxations introduced, the O-SII buffer will remain constant at 0,25% throughout 2020 and 2021, will rise to 0,375% on 1st January 2022 and finally increase to 0,5% on 1st January 2023. As a result, the OCR of the Bank as of 1 January 2020 has increased to 13,60%.

Liquidity

The Bank maintains healthy liquidity levels, with a Liquidity Coverage Ratio as at 31 December 2019 of 324,0%, well in excess of the regulatory minimum of 100%. Based on the projections of management it is expected, that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

In reaching its conclusion, the Board of Directors and Management have considered the following anticipated actions and uncertainties surrounding certain events as listed below:

- The Bank's business plan for the next 12 months, in particular its ability to limit the amount of new lending it extends as well as other measures, so as to enable it to meet the relevant capital adequacy requirements at all times.
- Any short and medium term economic impact of Covid-19 pandemic to the world and Cyprus economy in general and the Bank in particular to the extent this transpires to be different from the current expectations.
- The economic and political environment in Lebanon and its potential impact on the Bank to the extent this transpires to be different from the current expectations.
- The regulatory relaxations granted by regulators to enable banks to deal with the impact of Covid-19 as well as enable them to provide additional liquidity to the economy, including the timeframe through which such relaxations will be applicable.
- The current and planned capital raising initiatives including their timing and actual amount.
- The acquisition of the Cyprus branch of AJIB, including its timing and expected positive impact on the Bank's capital.
- The completion of the disposal of 74,9% of Trusset Asset Management Limited to Qualco Holdco Ltd including its timing and expected positive impact on capital.
- The completion of the acquisition of NBG (Cyprus) Ltd including its timing and expected positive impact on capital.

Based on its assessment, the Board of Directors and Management believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment, as a going concern for a period of 12 months from the date of approval of the Financial Statements and have satisfied themselves of the Group's ability to continue as a going concern over this period.

4. OPERATING ENVIRONMENT

Cyprus Economy Performance
Following the 2013 economic crisis, Cyprus recorded a strong economic recovery presenting 5 years of consecutive growth (2015-2009). In year 2019 real GDP increased by 3,2%, following an increase of 4,1% in 2018. According to the Labour Force Survey data, in year 2019 the unemployment rate dropped to 7,1% compared to 2018 when the yearly average unemployment rate was 8,4%.

4. OPERATING ENVIRONMENT (continued)

Cyprus Economy Performance (continued)

The fiscal consolidation measures introduced through the economic adjustment programme from 2013 onwards resulted in a budget surplus of 1,7% of GDP in 2017 and 3,0% of GDP in 2018 and 2,7% of GDP in 2019. The 2018 surplus excludes the fiscal burden associated with the orderly resolution of the Cyprus Cooperative Bank, which is associated to the increase in public debt from 93,9% of GDP at the end of 2017 to 100,6% of GDP at the end of 2018. The 2019 budget surplus allowed the decline of total public debt to 95,5% of GDP (Cyprus Statistical Service).

The Cypriot banking sector continued the decreasing trend in non-performing loan portfolios to €9 billion as at the end of 2019 from €10.4 billion at the end of 2018 while funding conditions remained favourable.

Economic Outlook
The COVID-19 outbreak, both domestically and globally, has led to a major revision in initial economic projections. The IMF in its January 2020 update was expecting a 3,3% global economic growth in 2020 followed by a 3,4% growth in 2021, but in their latest release in April 2020 have revised expectations to a contraction of 3,0% in 2020 and a rebound with a 5,8% growth in 2021 as economic activity normalises. In this latest IMF update, Euro Area is expected to contract by 7,5% in 2020 and United States by 5,9%. In its turn Cyprus economy is expected to contract by 6,5% in 2020 and return back to growth in 2021 by 5,6% expansion.

Fiscal support measures introduced by the Cyprus Government will limit contraction but unavoidably deteriorate the Government's fiscal position. The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting the improved domestic financial conditions and the improved confidence in the Cyprus banking sector. In September 2019 Moody's Ratings affirmed its Ba2 Cyprus Sovereign rating and upgraded its outlook to positive. S&P Global Ratings maintains an investment grade rating (BBB-) with a stable outlook since September 2018, which was affirmed in March 2020. In October 2019 Fitch affirmed its rating of BBB- and upgraded its outlook to positive.

Amid the impact on the economy from the COVID-19 outbreak, Moody's Rating updated their credit opinion in April 2020 and revised their forecasts for the Cypriot economy. According to the update, the outbreak will weigh on near term growth and fiscal prospects, but the impact on the credit profile is expected to be temporary. In its turn, Fitch affirmed its rating in April 2020 but revised its outlook from positive to stable, reflecting the significant impact the COVID-19 pandemic might have on the Cypriot economy and public debt.

Further information about the Coronavirus Pandemic and the economic support measures introduced in response to the outbreak are included in Note 46 "Events after the reporting period".

5. 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.

5.1 Classification of loans and advances to customers

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

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

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

5.2 Calculation of expected credit losses

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

Significant credit risk increase for loans and advances to customers

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

Determination of probability of default (PD)

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

Scenarios and macroeconomic factors

The Group determines the ECL, which is a probability-weighted amount, by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on Management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Bank's Executive Management. No Management overlays were performed during the reporting period.

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).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

5.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

Under the pessimistic scenario operational cash flows are decreased by 25% (2018: decreased by 50%), applied haircuts on real estate collaterals are increased by 10% (2018: 10%) and the timing of recovery of collaterals is increased by 1 year (2018: 1 year). Under the optimistic scenario no increase was applied to operational cash flows (2018: 25% increase), applied haircuts are decreased by 5% (2018: 5%) and the timing of recovery of collaterals is decreased by 1 year (2018: 1 year).

Under all scenarios, selling costs are assumed to be 4% (2018: Base scenario 4%, Optimistic scenario 3%, Pessimistic scenario 5%) of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values.

For cases that the foreclosure process is assessed to be the most relevant strategy, the applied haircut on real estate collaterals under the baseline scenario is 20% (2018: 25%) irrespective of the type and location of the property. The corresponding haircuts for the pessimistic scenario are increased by 10% (2018: 10%) and for the optimistic scenario are decreased by 5% (2018: 5%).

The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available property price indices by the CBC. In addition, a forward looking indexation is applied in the collateral prices for estimating the future open market value at the time of liquidation. During the year the Bank has proceeded to apply only 50% of the forward looking indexation as per the methodology applied in previous years.

For all real estate collaterals, the following haircuts were applied to the indexed open market values as at 31 December 2019 and 31 December 2018:

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

31 December 2018	Average haircut for urban locations	Average haircut for rural locations
Residential Real Estate (Completed)	6%	11%
Residential Land	10%	17%
Commercial Real Estate (Completed)	9%	18%
Commercial Land	12%	18%
Other Land, Agriculture & Protection Zone Real Estate	25%	25%
Semi-completed Real Estate (residential & commercial)	13%	17%
Special-use Real Estate (i.e. Hotels, shopping malls)	5%	11%

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

5.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

The table below indicates the most significant macroeconomic variables as well as the scenario weights used by the Group as at 31 December 2019 and 31 December 2018 respectively.

31 December 2019

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

31 December 2018

Year	Scenario	Weight	Real GDP (% change)	Unemployment rate (% of labour force)	Industrial production (%)	Residential Price Index (average change %)	Commercial Price Index (average change %)
2019	Baseline	50%	1,63%	7,72%	3,93%	2,70%	3,00%
	Optimistic	25%	2,85%	7,29%	1,51%	3,80%	4,10%
	Pessimistic	25%	-2,72%	10,00%	-3,63%	-0,26%	0,00%
2020	Baseline	50%	1,33%	7,55%	1,52%	3,50%	3,00%
	Optimistic	25%	2,10%	7,03%	2,25%	4,82%	4,32%
	Pessimistic	25%	-2,49%	12,42%	-2,11%	-0,92%	-1,42%
2021	Baseline	50%	1,14%	7,43%	1,15%	3,50%	2,00%
	Optimistic	25%	1,34%	6,98%	1,35%	4,20%	2,70%
	Pessimistic	25%	1,75%	12,90%	1,71%	0,00%	-0,14%
2022	Baseline	50%	1,20%	7,38%	1,17%	2,00%	2,00%
	Optimistic	25%	1,22%	6,94%	1,19%	2,00%	2,00%
	Pessimistic	25%	2,70%	11,91%	2,59%	0,00%	0,00%

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

5.2 Calculation of expected credit losses (continued)

Assessment of loss given default

A factor for the estimation of LGD is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

The timing of recovery of real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers is 6 years (2018: 6 years).

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

Modelling adjustments

Forward looking models have been developed for ECL parameters (PD and LGD) for all portfolios sharing similar characteristics. Governance of these models lies with the Risk Management Division and the Finance Division.

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

Portfolio segmentation

The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by Management. The selection criteria for the individually assessed exposures are based on Management judgement and are reviewed on a quarterly basis by the Group's Provisioning Committee and are adjusted or enhanced, if deemed necessary.

Expected lifetime of revolving facilities

Judgement is exercised on the measurement period of expected lifetime for revolving facilities. Management considers that the expected lifetime of revolving facilities is set at twelve months.

5.3 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.

5.4 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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

5.4 Deferred tax assets (continued)

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.

5.5 Income taxes

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

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

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

Valuations are carried out by independent qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council. In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement and do not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which would have existed 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 and require significant amount of judgement.

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

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

5.7 Classification of property

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

5.8 Exercise of significant influence

The Group determines whether it exercises significant influence on companies in which it has shareholdings of less than 20% if other factors exist that demonstrate significant influence. 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

5.9 Leases

Determination of the lease term

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

Determination of the incremental borrowing rate

For the initial measurement of the lease liabilities, the Group estimates the incremental borrowing rate specific to each leased asset or portfolio of lease assets if the interest rate implicit in the lease is not 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 asset which was set at €5,000.

Further details on leases are disclosed in Note 2.22 and Note 28.

5.10 Goodwill

The Group accounted for the acquisition of a business from USB Bank using the acquisition method. In accordance with IFRS 3, all identifiable assets and liabilities acquired were measured at their fair value at the time of acquisition. The difference between the purchase price and the balance of assets and liabilities acquired and measured at fair value was recognised as goodwill in the consolidated statement of financial position as at 31 December 2019. Judgment is exercised for the determination of the fair value of the identifiable assets and assumed liabilities. Further details on the measurement of fair values are disclosed in Note 43.3.

6. Transition disclosures

6.1 Transition to IFRS 16: Transition method adopted and Use of practical expedients

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and applied the following transition options available:

- The cumulative effect of initially applying the standard was recognised at the date of initial application. The implementation of IFRS 16 led to the recognition of the right of use assets at an equal amount as lease liabilities liability with no effect on equity or retained earnings of the Group as at 1 January 2019.

- Election to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application of 1 January 2019.

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

- Rely on its assessment of whether leases are onerous applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review. The Group adjusts the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

6. Transition disclosures (continued)

6.1 Transition to IFRS 16: Transition method adopted and Use of practical expedients (continued)

- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.
- Exclude from impact of adoption of IFRS 16 leases for which the lease term ends within 12 months of the date of initial application or leases for which the underlying asset is of low value (defined at €5.000 when new).

6.2 Impact on adoption of IFRS 16

The implementation of IFRS 16 led to the recognition of the RoU assets at an equal amount as lease liabilities with no effect on equity or retained earnings of the Group as at 1 January 2019.

The table below shows the impact on initial implementation of IFRS 16:

	1 January 2019 €
Assets	
Immovable Properties	3.301.196
Vehicles	220.915
Right-of-use assets	3.522.111
Liabilities	
Lease liabilities	3.522.111

6.3 Reconciliation of balance sheet amounts from IAS 17 to IFRS 16

The lease liabilities as at 1 January 2019 are reconciled to the operating lease commitments as disclosed in the consolidated financial statements for the year ended 31 December 2018 as follows:

	1 January 2019 €
Operating lease commitments as at 31 December 2018 (non-cancellable) (Note 28)	761.726
Weighted average incremental borrowing rate as at 1 January 2019	1.11%
Discounted operating lease commitment as at 1 January 2019	720.822
Add:	
Payments in optional extension periods for cancellable leases not recognised as at 31 December 2018 (Note 5.9)	2.801.289
Lease liabilities as at 1 January 2019	3.522.111

7. NET INTEREST AND OTHER SIMILAR INCOME

	2019 €	2018 €
Interest income		
Interest on loans advances to customers	40.383.516	22.605.841
Interest on debt securities at amortised cost	7.758.027	3.720.957
Interest on placements with banks	2.005.797	1.210.931
Total interest income	50.147.340	27.537.729
Income similar to interest income		
Interest on debt securities at fair value through profit or loss	423.417	219.452
Interest on swap transactions	1.717.911	1.188.174
Total income similar to interest income	2.141.328	1.407.626
Interest expense		
Interest on deposits from customers	(4.891.666)	(4.920.364)
Interest due to other banks	(196.872)	(82.133)
Interest on lease liabilities	(98.259)	-
Negative interest on placements with Central Bank and other banks	(751.747)	(1.322.268)
Total interest expense	(5.938.544)	(6.324.765)
Net interest income	46.350.124	22.620.590

8. NET FEE AND COMMISSION INCOME

	2019 €	2018 €
Fee and commission income		
Credit-related fees and commissions	5.590.189	3.882.287
Money transfer fees and commissions	5.663.657	5.551.558
Other banking commissions	339.361	176.902
Other fees	4.858.454	3.922.225
Private banking asset management fees	291.894	197.315
Total fee and commission income	16.743.555	13.730.287
Fee and commission expense		
Fees and commissions from banking operations	(2.569.182)	(2.072.104)
Private banking asset management fees	(250.798)	(137.654)
Total fee and commission expense	(2.819.980)	(2.209.758)
Net fee and commission income	13.923.575	11.520.529

9. OTHER INCOME

	2019 €	2018 €
Dividend from equity investments	767.057	768.600
Distribution from fund participation	632.228	-
Profit from disposal of investment properties (Note 24)	-	83.462
Gain on revaluation of investment properties	-	8.771
Profit from disposal of stock of property (Note 25)	258.777	-
Other income	180.318	73.435
Total	1.838.380	934.268

10. NET GAINS ON FINANCIAL INSTRUMENT TRANSACTIONS

	2019 €	2018 €
Gain from foreign exchange	1.926.808	1.372.157
Gain from disposal of financial assets at fair value through profit or loss (Note 19)	4.478.516	36.646
Fair value gain/ (loss) on revaluation of derivative on equity shares (Note 18)	794.494	(677.705)
Fair value (loss)/ gain on revaluation of equity shares (Note 19)	(794.494)	677.705
Contribution received on shares classified at FVTPL	157.814	-
Fair value gain/ (loss) on revaluation of debt securities classified at FVTPL (Note 19)	346.015	(370.260)
Fair value gain on revaluation of shares classified at FVTPL	651.989	-
Total	7.561.142	1.038.543

11. STAFF EXPENSES

Staff expenses

	2019 €	2018 €
Salaries	28.120.476	16.250.144
Social insurance and other contributions	1.850.423	1.036.962
Retirement benefit cost for defined contributions plans	2.192.955	1.210.679
Voluntary redundancy costs	2.193.764	2.053.050
Other staff expenses	353.556	204.680
Total	34.711.174	20.755.515

Number of employees	581	373

12. DEPRECIATION AND AMORTISATION

	2019 €	2018 €
Depreciation of property and equipment (Note 26)	1.336.534	733.572
Depreciation of right of use assets (Note 28)	1.265.359	-
Amortisation of intangible assets (Note 27)	2.183.845	578.342
Total	4.785.738	1.311.914

13. OPERATING EXPENSES

	2019 €	2018 €
Legal expenses and other consultancy fees	4.441.891	3.569.210
Buildings and other assets' maintenance cost	3.844.779	2.047.997
Sales and marketing expenses	880.594	837.538
Travelling expenses	736.767	440.992
Insurance expenses	729.437	486.675
Subscriptions	602.193	406.662
Telecommunication expenses	586.150	331.392
Utilities	530.229	313.667
Printing and stationery	428.873	356.021
Audit fees of the financial statements of the Group and its subsidiaries	392.651	282.863
Operating lease rentals	341.274	782.452
Postal expenses and transportation of cash	256.412	181.363
Other operating expenses	1.302.175	887.658
	15.073.425	10.924.490
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF)	3.010.946	1.784.114
Total	18.084.371	12.708.604

13. OPERATING EXPENSES (continued)

The special tax levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0,0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge. The Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund amounted to €3.010.946 (2018: €1.784.114).

14. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2019 €	2018 €
Reversal of expected credit loss to cover credit risk on loans and advances to customers (Note 22)	2.484.617	954.157
Reversal of expected credit loss on loans and advances to customers due to write offs	212.538	-
Recoveries of loans and advances to customers previously written off	1.449	25.702
(Provision for) / reversal of expected credit loss to cover credit risk on contractual commitments and guarantees (Note 37)	(349.930)	40.390
(Provision for) / reversal of expected credit losses to cover credit risk on other financial instruments	(1.253.923)	275.529
Provision for expected credit losses to cover credit risk on placements with other banks	(238.130)	-
	856.621	1.295.778

15. INCOME TAX

	2019 €	2018 €
Current tax	(17.272)	(12.353)
Deferred tax (Note 29)	(2.464.435)	392.777
	(2.481.707)	380.424

The Group is subject to income tax on taxable profits at the rate of 12,5% (2018: 12,5%).

As from tax year 2012 brought forward losses of only five years may be utilised. The recognition of deferred tax asset on unused tax losses is based on management's predictions and evaluations of currently available information as well as sensitivity analyses performed regarding the future growth rate of loans, deposits, financing developments, the percentage of impairment of loans and profitability, as well as taking into consideration the probability of recovering the deferred tax asset before its expiration date.

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

	2019 €	2018 €
Profit before tax	19.227.946	9.590.261
Tax calculated at the applicable tax rates	(2.403.493)	(1.198.783)
Income tax effect of:		
Expenses and other losses not deductible for tax purposes	(3.816.157)	(926.689)
Income and deductions not subject to tax	4.321.961	1.374.391
(Tax losses utilised)/ tax losses to be carried forward	1.880.417	738.728
Deferred tax charge/ credit	(2.464.435)	392.777
	(2.481.707)	380.424

15. INCOME TAX (continued)

An analysis of accumulated losses is as follows:

	Tax losses	Income tax losses for which a deferred tax asset was recognised (Note 29)	Income tax losses for which no deferred tax asset was recognised
	€	€	€
Expiring within the current year	13.285.869	5.831.733	7.454.136
Expiring between 1 and 3 years	22.162.657	17.974.720	4.187.937
Expiring between 4 and 5 years	310.768	-	310.768
	35.759.294	23.806.453	11.952.841

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.

16. CASH AND BALANCES WITH CENTRAL BANKS

	2019	2018
	€	€
Cash	14.223.777	12.442.661
Mandatory deposits with the Central Bank of Cyprus	21.242.364	13.737.646
Other balances with the Central Bank of Cyprus	203.102.695	170.998.100
Cheques to be cleared	3.256.453	3.584.623
Total	241.825.289	200.763.030

The following table presents the Mandatory deposits and other balances with Central Bank of Cyprus categorised according to their credit rating as per Moody's, the international credit rating agency as at 31 December 2019 and 31 December 2018.

	2019	2018
	€	€
Ba2	224.345.059	-
Baa3	-	184.735.746
Total	224.345.059	184.735.746

The placements with Central Bank of Cyprus are classified as Stage 1.

Cash and cash equivalents comprise:

	2019	2018
	€	€
Cash	14.223.777	12.442.661
Other non-obligatory balances	203.102.695	170.998.100
Cheques to be cleared	3.256.453	3.584.623
Current accounts (Note 17)	30.151.978	21.648.328
Placements with other banks with an original maturity of less than three months (Note 17)	60.350.248	86.024.266
	311.085.151	294.697.978

17. PLACEMENTS WITH OTHER BANKS

	2019 €	2018 €
Current accounts	30.151.978	21.648.328
Placements with other banks	60.588.378	86.024.266
12 month expected credit losses	(238.130)	-
Total	90.502.226	107.672.594

The following table presents the placements with other banks categorised according to their credit rating as per Moody's, the international credit rating agency, apart from (i) and (ii) which were categorised as per Standard and Poor's as at 31 December 2019 and 31 December 2018.

	2019 €	2018 €
Credit rating Aa2 (i)	3.605.790	641.640
Credit rating Aa3	20.923.116	13.719.017
Credit rating A1	3.712.624	4.640.569
Credit rating A3	1.442.083	1.492.668
Credit rating Baa2	-	50.005.042
Credit rating Baa3 (ii)	1.507.854	5.344.323
Credit rating B3	-	999.956
Credit rating Caa1	58.915.954	-
Credit rating Caa2	377.744	825.211
Unrated	17.061	30.004.168
	90.502.226	107.672.594

The placements with other Banks are classified at Stage 1.

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative financial instruments:

Forward contracts:

These are contracts for trading foreign currency to be settled at a future date. Forward contracts specify the exchange rate at which two currencies will be traded at a specific future date. The exchange rate is determined at the trade date.

Foreign currency swaps:

These are contracts to exchange cash flows in different currencies. Foreign currency swaps are commitments to exchange specific amounts of two different currencies including interest, at a specific future date. The foreign currency swap contracts are valued at their fair value (using the current exchange rates) by calculating the new swap points at the date of the valuation.

The notional amounts of those contracts provide a basis for comparison with other financial instruments recognised at the balance sheet, but they do not represent the amounts of future cash flows or the fair value of the derivatives and, therefore, do not provide an indication as to the Group's exposure to credit and other market risks. The fair value of the derivative financial instruments may be positive or negative as a result of fluctuations in the current exchange rates in relation to the prevailing terms. Derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Notional contract amount	Fair Value	
		Assets	Liabilities
	€	€	€
31 December 2019			
Derivatives held for trading:			
Foreign exchange derivatives			
Spot contracts	52.673.706	100.518	152.703
Currency swaps	28.295.706	7.806	3.303
Derivative on equity shares (1)		116.789	-
Total derivative financial instruments		225.113	156.006
31 December 2018			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	4.096.548	56.050	126.847
Currency swaps	51.148.708	7.123	3.346
Derivative on equity shares (1)		-	677.705
Total derivative financial instruments		63.173	807.898

(1) It is considered that the agreement between HMS and PBSA (refer to Note 20) contains a derivative which is recognised in the consolidated statement of financial position indicating the difference between the fair value at each reporting date and the price set by the SPA.

During the year ended 31 December 2019 the Bank recognised a fair value gain on the derivative on equity shares of €794.494 (2018: loss €677.705).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	€	€
Trading debt securities (1)	6.218.035	1.851.152
Fund participation (2)	8.915.040	8.724.481
Debt securities (3)	8.035.074	5.699.608
Equity investments (4)	6.763.713	6.633.924
Other investment (5)	1.067.164	-
	30.999.026	22.909.165
Movement:		
1 January	22.909.165	28.035.336
Financial assets acquired via acquisition of USB Bank	1.339.457	-
Additions	297.081.890	168.070.228
Disposals	(295.445.132)	(167.193.015)
Transfer from Fair Value Through Other Comprehensive Income (FVTOCI)	-	6.633.924
Transfer to investment property	-	(12.225.044)
Changes in fair value/ gain or loss on disposal	4.923.087	(412.264)
Foreign exchange gain	190.559	-
Closing balance	30.999.026	22.909.165

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

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

(2) Fund participation relates to an investment of US$10.000.000 in PMOF Special Situations Private Credit Fund. The fund participation is classified at FVTPL as it failed the SPPI test .

(3) Debt securities comprise of contingent convertible bonds that failed to meet the SPPI criteria and, as a result, have been classified at FVTPL. Fair value gain on revaluation for the year amounts to €346.015.

(4) Equity investments comprise the following:

	2019 €	2018 €
Shares in Atlantic Insurance Company Limited (ATL) (a)	5.839.431	6.633.924
Shares in VISA Inc. (b)	924.282	-
	6.763.713	6.633.924

(a) Corresponds to 50% of the shares in Atlantic Insurance Company Limited (ATL) owned by the Group (9,995% of the share capital of ATL) which are under the commitment of Piraeus Bank S.A. as described in note 20. During the year ended 31 December 2019 the Bank recognised a fair value loss of €794.494 for the investment in ATL.

(b) Investment in VISA Inc. was acquired via the acquisition of USB Bank business on the 18th of January 2019.The investment relates to 1.380 shares of VISA Class C Common Stock.

(5) Other investment relates to 672 shares of VISA Inc. Series C Convertible participating preferred stock acquired via the acquisition of USB Bank business on the 18th of January 2019.

Investment in ATL

For the valuation of its investment in Atlantic as at 31 Dec 2019 the Bank has obtained an external independent professional valuation report based on a discounted cash flow methodology as the shares of the company are not traded in an active market. As at 31 Dec 2018, the Bank utilised an internal valuation model which consisted of a combination of four different methods (discounted cash flow, book value of equity per share ,dividend valuation and share price) used for arriving at the overall valuation of the investment in ATL. The weights applied to each valuation method reflected Management's assessment of the relevance of each valuation method (Note 39).

An increase by 10% in the discount factor used in the valuation performed would result to a decrease in net equity by €524 thousand (2018: €357 thousand).

Investment in VISA Inc.

Visa Inc. Class C Common Stock

Each share of VISA Class C Common Stock is readily convertible to four Common Stock A shares which are actively traded. The fair value of this class of shares is determined using the bid price of Common Stock A shares as at 31 December 2019.

VISA Inc. Series C Convertible participating preferred stock

Each share of the specific instrument is convertible into Class A Common Stock which are valued based on the stock price of the underlying shares on each reporting date.

In arriving at the fair value of the shares, the bid price of Class A Common Stock shares, the conversion rate and the EUR/USD exchange rate as at as at 31 December 2019 were used. All three parameters have been adjusted in order to capture the downside risk originating from restrictions to trade, restrictions to convert and possible future revisions in the conversion ratio.

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

Risk of fluctuations in equity prices and conversion rates

Visa Inc. Class C Common Stock

As at 31 December 2019 the equity investment is exposed to price fluctuations of the VISA Inc. Common Stock A shares. A decrease/ increase in the market price of the shares by 5% as at 31 December 2019 would result in a decrease/ increase in net equity by €46 thousand. The conversion rate for the specific instrument is not subject to any change.

VISA Inc. Series C Convertible participating preferred stock

As at 31 December 2019 the investment is exposed to price fluctuations of the VISA Inc. Common Stock A shares and to changes in the conversion rate. A decrease/ increase in the market price of the shares and the conversion rate by 5% as at 31 December 2019 would result in a decrease/increase in net equity by €104 thousand in each case.

Risk of fluctuations in bond prices

As at 31 December 2019 the trading debt securities are exposed to price fluctuations of bond instruments. A decrease/ increase in the market price of the bonds by 5% as at 31 December 2019 would result in a decrease/ increase in net equity by €311 thousand (2018: €93 thousand).

As at 31 December 2019 the 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 2019 would result in a decrease/ increase in net equity by €402 thousand (2018: €285 thousand).

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 €	2018 €
Equity shares classified at fair value though other comprehensive income		
Listed (i)	5.909.195	6.633.924
Unlisted	317.892	357.021
	6.227.087	6.990.945

(i) The Group owns 19,99% of the share capital of Atlantic Insurance Company Limited (ATL). The Group's Management believes that the price of the share which is listed in the Cyprus Stock Exchange is not representative due to the low volume of transactions and therefore at 31 December 2019 valued this investment using alternative valuation methods.

Under the 'Agreement for the Sale and Purchase of Shares in Piraeus Bank (Cyprus) Ltd' "the SPA", between Piraeus Bank S.A., Holding M. Sehnaoui SAL (HMS) and AstroBank Public Company Limited which was completed on 28 December 2016, Piraeus Bank S.A. (PBSA) was committed to either find, within 180 days after Completion, a buyer for at least 50% of the Group's shares in ATL (with further terms ensuring that the Group receives no less and no more than the book value per share as at 31 December 2015) or to make a payment to HMS of €4,499,998.44, whereupon HMS shall subscribe for and the Bank shall issue to HMS 1,209,677 new ordinary shares which HMS shall allocate to itself and the Subscribers pro rata to their respective shareholdings in the Bank at the time of Completion. The agreement was extended up to 30 September 2020.

It is considered that the agreement contains a derivative which is recognised on the statement of financial position representing the difference between the fair value at each reporting date and the price set by the SPA (Note 18).

The shares relating to 50% of the shares in Atlantic Insurance Company Limited (ATL) owned by the Group (9,955% of the share capital of ATL) which are not the subject of this agreement have been classified as fair value through other comprehensive income and the remaining 50% at FVTPL (Note 19).

21. FINANCIAL ASSETS AT AMORTISED COST

	2019 €	2018 €
Securities classified at amortised cost		
Listed	700.178.089	371.749.000
12 month expected credit losses	(1.645.327)	(391.404)
	698.532.762	371.357.596

On 31 December 2019, the debt securities at amortised cost mainly comprised of Cyprus Government bonds of €299.477.833 (2018: €190.180.178) with short and long term maturity, Greek Government Bonds of €67.377.561, (2018: €NIL) Greek Treasury Bills with maturity of less than 3 months of €72.963.929 (2018: €37.989.773) European sovereign bonds and corporate bonds with short and long term maturity of €208.733.771 (2018: €136.457.648) and non-Eurozone sovereign bonds of €49.979.668 (2018: €6.729.997) with long term maturity.

During the year ended 31 December 2019, the Group recognised in the consolidated income statement a gain of €17.035.443 (2018: €7.966.575) from the disposal of debt securities at amortised cost. The Bank proceeded to the disposal as an exceptional measure amongst other decisions for capital and liquidity optimization.

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

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Gross carrying amount as at 1 January 2019	371.749.000	-	-	371.749.000
Additions (1)	1.009.098.746	-	-	1.009.098.746
Assets derecognised/ matured	(679.870.295)	-	-	(679.870.295)
Accrued interest	7.675.642	-	-	7.675.642
Foreign exchange adjustments	1.373.143	-	-	1.373.143
Interest received	(9.848.147)	-	-	(9.848.147)
Financial assets at amortised cost as at 31 December 2019	700.178.089	-	-	700.178.089

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

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

An analysis of changes in the gross carrying amount and the corresponding ECLs for the year ended 31 December 2018 is, as follows:

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Gross carrying amount as at 1 January 2018	64.910.338	-	-	64.910.338
Additions	575.476.745	-	-	575.476.745
Assets derecognised/ matured	(271.572.733)	-	-	(271.572.733)
Accrued interest	3.464.719	-	-	3.464.719
Foreign exchange adjustments	4.419.383	-	-	4.419.383
Interest received	(4.949.452)	-	-	(4.949.452)
Financial assets at amortised cost as at 31 December 2018	371.749.000	-	-	371.749.000

21. FINANCIAL ASSETS AT AMORTISED COST (continued)

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
ECL allowance as at 1 January 2018	329.290	-	-	329.290
Movement during the year	157.769	-	-	157.769
Assets derecognised or matured	(95.655)	-	-	(95.655)
ECL allowance as at 31 December 2018	391.404	-	-	391.404

The following table presents investments in bond securities categorised according to the issuer's or country's rating for government guaranteed securities, as per the international credit rating agency, Moody's, as at 31 December 2019 and 31 December 2018:

	2019 €	2018 €
Investments in bond securities classified at amortised cost:		
Credit rating Aaa	19.605.676	52.016.019
Credit rating Aa2	9.951.752	-
Credit rating Aa3	27.018.626	-
Credit rating A1	5.381.903	-
Credit rating A2	3.966.567	-
Credit rating A3	35.295.597	-
Credit rating Baa1	40.151.709	-
Credit rating Baa2	17.321.606	-
Credit rating Baa3	50.518.996	256.674.958
Credit rating Ba1	15.305.224	6.729.997
Credit rating Ba2	299.477.833	12.754.782
Credit rating Ba3	24.290.859	-
Credit rating B1	140.341.489	37.989.773
Credit rating Caa2	5.101.261	5.192.067
Unrated	4.803.664	-
	698.532.762	371.357.596

The following table presents investments in bond securities by country of issuer as at 31 December 2019 and 31 December 2018:

	2019 €	2018 €
Investments in bond securities classified at amortised cost:		
Cyprus	304.579.094	195.611.827
Greece	195.798.422	50.744.544
Other countries	198.155.246	125.001.149
	698.532.762	371.357.596

22. LOANS AND ADVANCES TO CUSTOMERS

	2019 €	2018 €
Advances to individuals	309.203.656	219.426.978
Advances to legal entities:		
Large corporate entities and organisations	170.752.601	146.977.775
Small and medium size enterprises (SMEs)	678.116.319	393.336.358
Advances to customers – gross	1.158.072.576	759.741.111
Allowance for ECL	(160.181.919)	(181.108.367)
Advances to customers – net	997.890.657	578.632.744

In 2019, the Bank acquired a portfolio with a fair value of €302.513.687 and a contractual principal of €454.453.835 with the acquisition of USB Bank business. The acquired portfolio was categorized as Stage 1 (€184.120.151) and as POCI (€118.393.536).

The amount of new originations in the year net of derecognitions and other movements is €150m. The contractual amount outstanding on loans that have been written off during the reporting period, but were still subject to enforcement activity is €44,8m (2018: €31,2m). The contractual amount on financial assets that were written off during the reporting period is €9,8m (2018: €20m).

The allowance for ECL is decreased from €181m at 31 December 2018 to €160m at 31 December 2019.The variance is primarily driven by €35,7m decrease from write offs and derecognition, €1,5m increase from change due to change in credit risk and ECL on new originations and €13,9m increase due to discount unwinding relating to Stage 3 and POCI facilities which was recognised as a reduction to interest income.

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

	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross carrying amount 1 January 2019	379.553.853	59.376.529	288.268.791	32.541.938	759.741.111
Gross loans acquired via acquisition of USB Bank business	184.120.151	-	-	118.393.536	302.513.687
New assets originated or purchased	227.686.916	-	-	4.772.457	232.459.373
Transfer to Stage 1	8.521.355	(8.520.632)	(723)	-	-
Transfer to Stage 2	(63.994.570)	75.344.790	(11.350.220)	-	-
Transfer to Stage 3	(11.083.007)	(4.962.904)	16.045.911	-	-
Net movement during the year	(48.329.379)	(7.961.483)	5.531.632	28.763.562	(21.995.668)
Gross loans derecognised	(33.169.756)	(767.174)	(25.205.798)	(926.940)	(60.069.668)
Write-offs	(83.476)	(22.204)	(25.956.819)	(28.513.760)	(54.576.259)
At 31 December 2019	643.222.087	112.486.922	247.332.774	155.030.793	1.158.072.576

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross carrying amount					
1 January 2018	209.222.474	107.902.378	381.529.623	24.958.339	723.612.814
New assets originated or purchased	156.961.341	-	-	-	156.961.341
Transfer to Stage 1	79.987.922	(78.414.616)	(1.573.306)	-	-
Transfer to Stage 2	(3.659.499)	46.862.023	(43.202.524)	-	-
Transfer to Stage 3	(5.851.564)	(6.048.057)	11.899.621	-	-
Net movement during the year	(57.090.401)	(10.925.199)	(14.981.802)	13.220.106	(69.777.296)
Write-offs	(16.420)	-	(45.402.821)	(5.636.507)	(51.055.748)
At 31 December 2018	379.553.853	59.376.529	288.268.791	32.541.938	759.741.111

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

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
ECL allowance 1 January 2018	2.889.053	346.489	180.076.308	26.781.439	210.093.289
Impact adopting IFRS 9 at 1 January 2018	896.527	658.584	3.778.471	477.055	5.810.637
Restated balance 1 January 2018	3.785.580	1.005.073	183.854.779	27.258.494	215.903.926
Interest not recognised in the income statement	-	-	14.425.161	2.061.091	16.486.252
Write-offs	-	-	(48.905.971)	(1.966.681)	(50.872.652)
Derecognition	(705.668)	(99.094)	(3.076.176)	(7.869)	(3.888.807)
Transfer to Stage 1	600.431	(461.964)	(138.467)	-	-
Transfer to Stage 2	(128.648)	3.438.611	(3.309.963)	-	-
Transfer to Stage 3	(50.812)	(122.343)	173.155	-	-
Change due to change in credit risk	855.343	(1.581.507)	3.121.445	539.369	2.934.650
Foreign exchange difference and other movement	(17.557)	2.616	634.405	(74.466)	544.998
31 December 2018	4.338.669	2.181.392	146.778.368	27.809.938	181.108.367

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	Gross Loans and Advances to Customers				Accumulated Impairment, accumulated changes in fair value due to credit risk and provisions			
			Of which with Forbearance measures				Of which with Forbearance measures	
	Gross carrying amount	Of which Non-Performing	Gross carrying amount of Loans with Forbearance measures	Of which Non-Performing	Cumulative Impairment Losses	Of which Non-Performing	Cumulative Impairment Losses of Loans with Forbearance measures	Of which Non-Performing
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
General Governmnets	**3.305**	**-**	**-**	**-**	**49**	**-**	**-**	**-**
Other Financial Corporations	**67.814**	**14.693**	**15.905**	**12.610**	**1.526**	**897**	**432**	**361**
Non-financial Corporations	**777.573**	**231.956**	**130.679**	**82.383**	**86.126**	**81.584**	**6.343**	**5.807**
of which: Small and Medium-sized enterprises	617.460	230.864	120.899	82.383	84.336	81.538	6.725	5.808
of which: Loans collateralized by commercial Immovable property	329.834	88.799	54.934	49.383	18.851	17.322	208	58
Non-financial Corporations by sector	**777.573**	**231.956**	**130.679**	**82.383**	**86.126**	**81.584**	**6.343**	**5.807**
Construction	172.946	116.375	71.309	43.199	40.331	40.007	4.887	4.606
Wholesale and retail trade	115.997	32.388	14.788	12.254	13.673	12.500	204	57
Accommodation and food service activities	95.549	21.412	130.039	6.813	8.015	7.837	-	-
Real estate activities	127.175	25.896	15.921	11.077	8.716	8.225	20	-
Water supply, sewerage and waste management	54.229	33	-	-	336	27	-	-
Other Sectors	211.677	35.852	15.622	9.040	15.055	12.988	1.232	1.144
Households	**309.381**	**153.733**	**33.425**	**28.408**	**72.481**	**71.161**	**3.031**	**2.915**
of which: Loans collateralized by residential Immovable property	197.603	95.640	27.520	23.900	30.335	30.041	2.141	2.073
of which: Credit for consumption	276.347	134.207	30.083	26.173	58.889	57.801	2.756	2.715
Total	**1.158.073**	**400.382**	**180.009**	**123.401**	**160.182**	**153.642**	**9.807**	**9.083**

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

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2018 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	**3.957**	**0**	**0**	**0**	**82**	**0**	**0**	**0**
Other Financial Corporations	**59.558**	**16.745**	**19.124**	**15.551**	**3.637**	**2.354**	**1.955**	**1.273**
Non-financial Corporations	**476.738**	**180.620**	**75.209**	**43.227**	**100.967**	**97.983**	**8.559**	**8.319**
of which: Small and Medium-sized enterprises	342.995	178.199	72.835	40.852	99.495	97.725	8.342	8.102
of which: Loans collateralized by commercial Immovable property	214.647	118.184	56.800	26.518	66.060	64.569	7.851	7.649
Non-financial Corporations by sector	**476.738**	**180.620**	**75.209**	**43.227**	**100.967**	**97.983**	**8.559**	**8.319**
Construction	131.213	86.847	42.942	14.532	46.666	46.335	4.714	4.714
Wholesale and retail trade	85.836	23.499	8.241	6.196	13.845	12.663	403	201
Accommodation and food service activities	40.650	13.886	2.375	2.375	9.188	9.073	217	217
Real estate activities	56.590	22.474	10.101	10.101	10.772	10.552	1.633	1.633
Water supply, sewerage and waste management	55.350	30	0	0	24	24	0	0
Other Sectors	107.099	33.884	11.550	10.023	20.472	19.336	1.592	1.554
Households	**219.488**	**126.179**	**27.235**	**22.802**	**76.423**	**74.489**	**4.704**	**4.417**
of which: Loans collateralized by residential Immovable property	159.562	96.728	23.956	20.332	54.678	54.139	3.139	2.972
of which: Credit for consumption	50.232	21.400	2.171	2.028	17.425	15.922	802	799
Total	**759.741**	**323.544**	**121.568**	**81.580**	**181.109**	**174.826**	**15.218**	**14.009**

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

23. OTHER ASSETS

	2019 €	2018 €
Prepaid expenses	1.376.290	1.019.937
Other receivables	8.051.758	757.655
	9.428.048	1.777.592

As at 31 December 2019 and 31 December 2018, other receivables are classified at Stage 1 for IFRS 9 purposes.

As at 31 December 2019 and 31 December 2018, no ECL was recognised on other receivables.

24. INVESTMENT PROPERTIES

	2019 €	2018 €
1 January	75.827.500	64.730.039
Additions	1.181.000	20.142.239
Acquisition of USB Bank business	63.045.190	-
Disposals	(255.000)	(9.025.125)
Changes in fair value	-	8.771
Other movements	-	(28.424)
Transfer to stock of property	(139.798.690)	-
Closing balance	-	75.827.500

Investment properties were transferred to stock of property during the year ended 31 December 2019. The effective date of change in use and transfer to stock of property was 12th April 2019 (Note 25).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

During the year ended 31 December 2018, the Group disposed repossessed assets of a total amount of €9.025.125. A total gain of €83.462 was recognised in the consolidated income statement for the year ended 31 December 2018 (Note 9).

25. STOCK OF PROPERTY

	2019 €	2018 €
1 January	-	-
Transfer from investment properties	139.798.690	
Additions	14.611.223	-
Disposals	(3.220.020)	-
Impairment	(3.524.921)	-
Closing balance	147.664.972	-

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

Following the absorption of USB Bank portfolio which has increased its NPEs and its REOs portfolio, the Group has proceeded to the refinement of its NPEs management strategy by introducing a newly formed Debt Servicing Unit ("DSU") with the aim of tackling NPEs in a more focused approach.

The DSU has clear mandates and authorities, a lean, flexible and efficient operating model, with clear focus and dedication, ring-fenced from other banking activities and operations. DSU objective is to monetise the value of the collaterals on-boarded from restructured NPEs. DSU, in its ordinary course of business, holds property for sale with an intention to dispose them as soon as possible and not to make profit in the long-term from capital appreciation or from earning rental yields. The sale of properties by DSU is closely monitored by the Group's Executive Management.

With the set-up of the DSU from early 2019 the Group has commenced deploying its strategy for the management and timely disposal of REOs via active targeted marketing through multiple channels. In effect, as a result of this refined NPEs management strategy, the Group has changed its use of REOs with a clear target of a timely sale.

As a result of the change in use of the properties acquired in debt satisfaction, the Group's Management has reassessed the applicability of the accounting policy on its existing portfolio of repossessed assets and has concluded that for all properties previously classified as investment properties there has been a change in use and has therefore transferred €139.798.690 REOs from investment properties to stock of property representing the fair value at the time of transfer. The effective date of change in use and transfer from investment property to stock of property was 12 April 2019.

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

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

The carrying amount of stock of property carried at fair value less costs to sell as at 31 December is €133.945.695.

26. PROPERTY AND EQUIPMENT

	Property €	Equipment €	Total €
2019			
Net book value at 1 January	20.625.000	3.862.944	24.487.944
Additions	69.243	2.625.215	2.694.458
Write offs/ Disposals	-	(535.243)	(535.243)
Depreciation (Note 12)	(147.280)	(1.189.254)	(1.336.534)
Property revaluation	2.502.973	-	2.502.973
Transfer between categories	(139.936)	139.936	-
Net book value at 31 December	22.910.000	4.903.598	27.813.598
1 January 2019			
Cost or valuation	20.625.000	11.154.487	31.779.487
Accumulated depreciation	-	(7.291.543)	(7.291.543)
Net book value	20.625.000	3.862.944	24.487.944
31 December 2019			
Cost or valuation	22.910.000	12.814.824	35.724.824
Accumulated depreciation	-	(7.911.226)	(7.911.226)
Net book value	22.910.000	4.903.598	27.813.598
2018			
Net book value at 1 January	20.625.000	3.460.092	24.085.092
Additions	461.413	1.832.637	2.294.050
Write offs/ Disposals	-	(847.393)	(847.393)
Depreciation (Note 12)	(139.340)	(594.232)	(733.572)
Property revaluation	(310.233)	-	(310.233)
Transfer between categories	(11.840)	11.840	-
Net book value at 31 December	20.625.000	3.862.944	24.487.944
1 January 2018			
Cost or valuation	20.625.000	11.535.555	32.160.555
Accumulated depreciation	-	(8.075.463)	(8.075.463)
Net book value	20.625.000	3.460.092	24.085.092
31 December 2018			
Cost or valuation	20.625.000	11.154.487	31.779.487
Accumulated depreciation	-	(7.291.543)	(7.291.543)
Net book value	20.625.000	3.862.944	24.487.944

26. PROPERTY AND EQUIPMENT (continued)

Property includes land of €10.887 thousand (2018: €9.359 thousand) for which no depreciation is charged. The latest property revaluation was performed in December 2019.

The net book value of property at 31 December 2019 based on cost less accumulated depreciation is €17.033 thousand (2018: €17.161 thousand).

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

A total revaluation gain of €2.503 thousand was recognised during the year ended 31 December 2019. Revaluation gain of €1.830 thousand (2018: impairment loss €310 thousand) was recognised in the consolidated income statement and a revaluation gain of €673 thousand (2018: NIL) was recognised in the revaluation reserve in equity.

Fair value of land and buildings

An independent valuation of the Group's land and buildings was performed by two independent valuers to determine the fair value of the land and buildings as at 31 December 2019 and 2018. The loss on revaluation was charged to the consolidated income statement in accordance with the relevant accounting policy. The following table analyses the property carried at fair value, by method of valuation. The different levels have been defined as follows:

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

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

	Fair value measurements at 31 December 2018 using:		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	€	€	€
Recurring fair value measurements Land and buildings – Office Buildings - Nicosia	-	-	20.625.000

There were no transfers between levels during year 2019 and 2018.

26. PROPERTY AND EQUIPMENT (continued)

	Office building	
	2019	2018
	€	€
Opening balance	20.625.000	20.625.000
Additions	69.243	461.413
Transfers to furniture and equipment	(139.936)	(11.840)
Depreciation charge	(147.280)	(139.340)
Revaluation gain/ (loss)	2.502.973	(310.233)
Closing balance	22.910.000	20.625.000

During the years 2019 and 2018, 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 comparison method was used in combination with the replacement cost method and investment method.

Valuation processes of the Group

On an annual basis, the Group engages external and qualified valuers to determine the fair value of land and buildings. As at 31 December 2019 and 2018, the fair value of the land and buildings has been determined as the average value based on the valuations.

The Level 3 valuations for land and buildings have been performed using the average of a sales comparison method and the replacement cost method. However for office buildings in Nicosia there have been a limited number of similar sales in the local market and 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 2019 €	Valuation techniques	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
		Land cost	Price per square metre	Approximately €5.023m²	The higher the price per square metre, the higher the fair value
Office building - Nicosia	22.910.000	Approximation of building construction	Price per square metre	Approximately €1.926m² for ground floor and other floors and €449μ² for basements	The higher the price per square metre, the higher the fair value

26. PROPERTY AND EQUIPMENT (continued)

Description	Fair value at 31 December 2018 €	Valuation techniques	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
Office building - Nicosia	20.625.000	Land cost	Price per square metre	Approximately €4.250m²	The higher the price per square metre, the higher the fair value
		Approximation of building construction	Price per square metre	Approximately €1.750m² for ground floor and other floors and €550μ² for basements	The higher the price per square metre, the higher the fair value

27. INTANGIBLE ASSETS

	Goodwill €	Computer Software €	Other Intangibles €	Total €
2019				
Net book value at 1 January	-	1.125.231		1.125.231
Additions	8.526.187	1.273.239	2.832.994	12.632.420
Amortisation (Note 12)	-	(1.239.608)	(944.237)	(2.183.845)
Impairment of goodwill	(8.526.187)	-	-	(8.526.187)
Net book value at 31 December	-	1.158.862	1.888.757	3.047.619
1 January 2019				
Cost	-	10.020.319	-	10.020.319
Accumulated amortisation	-	(8.895.088)	-	(8.895.088)
Net book value	-	1.125.231	-	1.125.231
31 December 2019				
Cost	-	11.293.558	2.832.994	14.126.552
Accumulated amortisation	-	(10.134.696)	(944.237)	(11.078.933)
Net book value	-	1.158.862	1.888.757	3.047.619
2018				
Net book value at 1 January	-	935.780	-	935.780
Additions	-	767.793	-	767.793
Amortisation (Note 12)	-	(578.342)	-	(578.342)
Net book value at 31 December	-	1.125.231	-	1.125.231
1 January 2018				
Cost	-	9.252.526	-	9.252.526
Accumulated amortisation	-	(8.316.746)	-	(8.316.746)
Net book value	-	935.780	-	935.780
31 December 2018				
Cost	-	10.020.319	-	10.020.319
Accumulated amortisation	-	(8.895.088)	-	(8.895.088)
Net book value	-	1.125.231	-	1.125.231

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

28. LEASES

The Group is a lessee for commercial properties such as office buildings and branches. Prior to the adoption of IFRS 16 on 1 January 2019 those contracts were classified as operating leases under IAS17. The basic terms for lease contracts relating to the branch network are uniform irrespective of lessors, with the non-cancellable rental period usually being two years with an option to extend the tenancy. The rent is adjusted at the end of each renewal period according to the agreed terms and considering the relevant legislation.

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

	Right of use assets €	Lease Liabilities €
1 January 2019 - Impact on adoption of IFRS 16	3.522.111	(3.522.111)
Additions	258.497	(258.497)
Acquisition of USB Bank business	5.617.497	(3.015.472)
Depreciation charge for the year	(1.265.359)	-
Interest expense	-	(98.259)
Cash outflows	-	1.057.474
Closing balance	8.132.746	(5.836.864)

RoU assets as at 31 December 2019 comprised of leases for buildings of €7.941.858 and leases for cars of €190.888.

Cash outflows relate to lease payments made in the year.

The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 under IAS 17 are presented below:

	2018 €
Within one year	263.541
Between one and five years	498.185
Total	761.726

29. DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax assets

The movement in the deferred tax assets is set below:

	2019 €	2018 €
Balance at 1 January	5.857.226	5.716.155
Change of future utilisation of tax losses	(2.057.998)	716.996
Change relating to provisions on stage 1 and stage 2 loans	(10.205)	(575.925)
Balance at 31 December	3.789.023	5.857.226

29. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax liabilities

The movement in the deferred tax liabilities is set below:

	2019 €	2018 €
Balance at 1 January	635.795	887.501
Adjustment – property revaluation recognised in consolidated income statement	396.232	(95.627)
Adjustment – property revaluation recognised in consolidated statement of other comprehensive income (Note 34)	81.452	-
Deferred tax transferred via acquisition of USB Bank business	171.540	
Adjustment – temporary difference on leasehold improvements	-	(156.079)
Balance at 31 December	1.285.019	635.795

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

	2019 €	2018 €
Deferred tax assets		
Deferred tax relating to future utilisation of tax losses	2.975.807	5.033.805
Deferred tax relating to provisions on stage 1 and stage 2 loans (2)	813.216	823.421
	3.789.023	5.857.226
Deferred tax liabilities		
Property revaluation (1)	1.285.019	635.795
	1.285.019	635.795

(1) It comprises of the Group's headquarters on 1 Spyrou Kyprianou Street, Nicosia which was last revalued on December 2019.
(2) The Bank has recognised a deferred tax asset on the provisions on stage 1 and stage 2 loans. The deferred tax asset recognised relates to the effect of expected credit losses which are expected to materialize in future periods.

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

	2019 €	2018 €
Tax losses	(2.057.998)	716.996
Collective impairment of loans and advances	(10.205)	(575.925)
Property revaluation	(396.232)	95.627
Temporary difference on leasehold improvements	-	156.079
Total (Note 15)	(2.464.435)	392.777

30. AMOUNTS DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

	2019 €	2018 €
Analysis by geographical sector		
Cyprus	8.066.321	7.397.289
Greece	483.661	209.780
Other countries	9.371.244	7.533.133
	17.921.226	15.140.202

31. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

Analysis by type of deposit

	2019 €	2018 €
Demand	1.028.824.510	652.819.334
Savings	276.364.652	114.599.226
Term	702.235.923	453.006.932
Total	2.007.425.085	1.220.425.492

Analysis by customer type

	2019 €	2018 €
Large entities and organisations	149.876.215	59.575.464
Small and medium size enterprises	828.619.964	551.646.445
Deposits from individuals	1.028.928.906	609.203.583
Total	2.007.425.085	1.220.425.492

Analysis by line

	2019 €	2018 €
Retail	1.214.759.402	657.869.893
Corporate	143.877.386	86.528.806
International banking services	561.574.756	431.088.796
Wealth management	82.793.691	43.582.416
Recoveries banking unit	4.419.850	1.355.581
Total	2.007.425.085	1.220.425.492

Analysis by currency

	2019 €	2018 €
Euro	1.668.947.315	1.031.033.450
US Dollar	294.359.070	149.242.413
British Pound	31.407.133	28.766.700
Swiss Franc	1.147.780	625.250
Other	11.563.787	10.757.679
Total	2.007.425.085	1.220.425.492

Analysis by geographical area

	2019 €	2018 €
Cyprus	1.684.189.398	953.379.080
Greece	102.947.634	102.188.327
Russia	14.594.815	13.837.578
Lebanon	52.941.931	11.550.310
British Virgin Islands	18.096.262	24.816.830
Other countries	134.655.045	114.653.367
Total	2.007.425.085	1.220.425.492

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

32. OTHER LIABILITIES

	2019 €	2018 €
Expenses payable	4.429.954	2.683.968
Outstanding customers banking transactions	32.358.433	21.145.541
Provisions for financial guarantees and commitments	969.323	619.393
Other liabilities relating to 2019 issue of share capital	13.218.725	24.105.863
Total	50.976.435	48.554.765

33. SHARE CAPITAL, SHARE PREMIUM AND PREFERENCE SHARES

	Authorised share capital		Issued share capital	
	Number of shares	€	Number of shares	€
Ordinary shares	40.000.000	40.000.000	19.761.754	146.668.191
Preference Shares	1.250.000	1.250.000	1.250.000	10.000.000
	41.250.000	41.250.000	21.011.754	156.668.191

	Share Capital €	Share Premium €	Preference Shares €	Total €
1 January 2018	14.113.487	88.554.704	-	102.668.191
31 December 2018	14.113.487	88.554.704	-	102.668.191
1 January 2019	14.113.487	88.554.704	-	102.668.191
Issue of shares (1)	5.648.267	38.351.732	10.000.000	53.999.999
31 December 2019	19.761.754	126.906.436	10.000.000	156.668.190

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

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

Terms of issued redeemable convertible preference shares

The issuance of the redeemable convertible preference shares ("PRCS") was approved by the shareholders of the Group and the Board of Directors. The shares have a nominal value of €1 each and a subscription price of €8 each.

Form and status: The PRCS are redeemable and may be redeemed by the Bank only (redemption is at the option of the issuer). The PRCS are perpetual in respect of which there is no fixed redemption date or maturity date. The PRCS are unsecured and rank a) junior to i) liabilities of the Group including subordinated liabilities and ii) instruments issued or guaranteed by the Group ranking senior to PRCS, b) pari passu with each other and c) senior to Ordinary Shares.

Voting rights: The PRCS do not have the right to receive notice of, to be present or to vote at any general meeting of the Group and do not have the right to vote on any written resolution of the members of the Group.

33. SHARE CAPITAL, SHARE PREMIUM AND PREFERENCE SHARES (continued)

Terms of issued redeemable convertible preference shares (continued)

Rights as to income: The PRCS holders have the right to the distribution to be paid annually following signing of the financial statements of the Group and no later than 30 calendar days as from the holding of each annual general meeting of the Group.

Dividend distribution: Distribution of dividends is solely on the discretion of the Bank. The share premium is not available for distribution to the shareholders in the form of dividend. The issued share capital is fully paid.

34. RETAINED EARNINGS AND OTHER RESERVES

	2019 €	2018 €
Retained earnings		
Balance at 1 January	8.407.676	5.121.259
IFRS 9 impact on 1 January 2018	-	(6.684.268)
Profit for the year attributable to the Group's shareholders	16.746.239	9.970.685
Balance at 31 December	25.153.915	8.407.676
Fair value reserve		
Balance at 1 January	716.834	8.408.033
Impact of adopting IFRS 9 at 1 January 2018	-	446.951
Property revaluation	672.678	-
Deferred tax on revaluation of property held for own use	(81.452)	-
Revaluation for the year on FVTOCI financial assets	(763.859)	252.406
Transfer of realised gains on disposal of FVOCI/ available for sale financial assets	-	(8.390.556)
Balance 31 December	544.201	716.834

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

35. 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.

	2019 €	2018 €
Credit guarantees	17.140.114	17.182.388
Letters of guarantee	54.128.848	30.131.846
Total	71.268.962	47.314.234

As at 31 December 2019 letters of guarantee of €19.981.181 (31 December 2018: €5.231.165) 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.

Unutilised credit limits

Loan commitments/credit limits that have been approved but not yet utilised amount to €113.219.552 as at 31 December 2019 (31 December 2018: €82.431.443).

Legal proceedings

As at 31 December 2019 there were pending litigations against the Group in connection with its activities. Based on legal advice, the Board of Directors believes that there is adequate defense against all claims and that the said claims are considered unlikely to have any material adverse impact on the financial position of the Group.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Pending litigation and claims

Employment litigation

An employment litigation case is pending before District Court against the Bank for unfair dismissal. The claim is for damages for breach of employment contract. The Bank has proceeded in accordance with its internal policies and procedures before proceeding with the dismissal of the employee.

Disposal of underlying security of facilities granted by the Bank

Two cases by Bank's customers and guarantors against the Bank, certain of its senior officers and the Receiver and Manager appointed by the Bank, claiming damages for alleged illegal disposal of an asset held as security for facilities granted. The Bank strongly defends the case denying these allegations. The amount of claim is for €28.200.000.

Alleged wrongdoing blocking of an account

Action concerns a claim by the Plaintiffs that the amounts claimed by their legal action have been blocked in favour of the Bank by a person who at the time was not duly authorized by the Plaintiffs to provide the security in question.

Letters of guarantees

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

Claim for cancellation of facility agreements

The claimant is a debtor of the Bank who claims inter alia that the legal agreements signed between the Bank and the Company are void and/or illegal and/or that they have been charged with illegal charges. It is expected that the Bank will file a counterclaim after the analytical Statement of Claim is filed by the Plaintiffs and provided that the claim involves negligence on behalf of the Bank, the success of the case will depend on the evidence that will be presented in court.

Claims relating to execution of transactions

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

Competition Law case which was transferred with the acquisition of USB Bank business

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

36. 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 2019 and 31 December 2018 are listed below. The Bank has direct and indirect 100% shareholding in the following companies.

	Country of incorporation	Activities	Percentage holding % 31 December 2019	Percentage holding % 31 December 2018
EMF Investors Limited	Cyprus	Dormant	100%	100%
AstroBank Insurance Agency Limited	Cyprus	Insurance Broker	100%	100%
Adflikton Investments Limited	Cyprus	Property holding	100%	100%
Costpleo Investments Limited	Cyprus	Property holding	100%	100%
Cutsofiar Enterprises Limited	Cyprus	Property holding	100%	100%
Gravieron Company Limited	Cyprus	Property holding	100%	100%
Rockory Enterprises Limited	Cyprus	Property holding	100%	100%
Bakkens Limited	Cyprus	Property holding	100%	100%
Xepa Limited	Cyprus	Property holding	100%	100%
Kaihur Investment Limited	Cyprus	Property holding	100%	100%
Pertanam Enterprises Limited	Cyprus	Property holding	100%	100%
Alarconaco Enterprises Limited	Cyprus	Property holding	100%	100%
Langesee Limited	Cyprus	Property holding	100%	100%
Olemo Limited	Cyprus	Property holding	100%	100%
Todero Limited	Cyprus	Property holding	100%	100%
Castlehawk Limited	Cyprus	Property holding	100%	100%
Dacibel Limited	Cyprus	Property holding	100%	100%
Dicoder Limited	Cyprus	Property holding	100%	100%
Amatorco Limited	Cyprus	Property holding	100%	100%
Nexelleuce Limited	Cyprus	Property holding	-	100%
Imagetech Limited	Cyprus	Intermediate holding company	100%	-
Averrhoa Limited	Cyprus	Property holding	100%	-
Rowington Ventures Limited	Cyprus	Property holding	100%	-
Lardonia Limited	Cyprus	Property holding	100%	-
Sabatia Limited	Cyprus	Property holding	100%	-
Shortia Limited	Cyprus	Property holding	100%	-
Delaway Limited	Cyprus	Intermediate holding company	100%	-
Olcinia Holdings Limited	Cyprus	Intermediate holding company	100%	-
Crantenia Ventures Limited	Cyprus	Property holding	100%	-

36. GROUP COMPANIES (continued)

	Country of incorporation	Activities	Percentage holding % 2019	Percentage holding % 2018
Osperus Holdings Limited	Cyprus	Intermediate holding company	100%	-
Kantadia Ventures Limited	Cyprus	Property holding	100%	-
Dusanic Holdings Limited	Cyprus	Intermediate holding company	100%	-
Macerio Limited	Cyprus	Property holding	100%	-
Perekin Holdings Limited	Cyprus	Intermediate holding company	100%	-
Azulito Ventures Limited	Cyprus	Property holding	100%	-
Perequito Holdings Limited	Cyprus	Intermediate holding company	100%	-
Bequelia Ventures Limited	Cyprus	Property holding	100%	-
Serissa Holdings Limited	Cyprus	Intermediate holding company	100%	-
Tipuana Ventures Limited	Cyprus	Property holding	100%	-
Naila Holdings Limited	Cyprus	Intermediate holding company	100%	-
Lewisia Holdings Limited	Cyprus	Intermediate holding company	100%	-
Snaresbrook Ventures Limited	Cyprus	Property holding	100%	-
Scaevola Ventures Limited	Cyprus	Property holding	100%	-
Ailanthus Holding Limited	Cyprus	Property holding	100%	-
Conaria Holding Limited	Cyprus	Property holding	100%	-
Callistem Holdings Limited	Cyprus	Property holding	100%	-
Yurania Investments Limited	Cyprus	Property holding	100%	-
Carbinor Consultants Limited	Cyprus	Secretarial services to the Bank's subsidiaries	100%	-
Tomentos Holdings Limited	Cyprus	Property holding	100%	-
Viegiot Investments Limited	Cyprus	Property holding	100%	-
A.P.M. Control Company Ltd	Cyprus	Property holding	100%	-
A.P.M. Firstsun Company Ltd	Cyprus	Property holding	100%	-
Firstplatinum Company Ltd	Cyprus	Property holding	100%	-
Openstar International Company Limited	Cyprus	Property holding	100%	-
Gianteto Limited	Cyprus	Property holding	100%	-
Meribas Limited	Cyprus	Property holding	100%	-
Trusset Asset Management Limited	Cyprus	Dormant	100%	-

37. MANAGEMENT OF FINANCIAL RISKS

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

Credit risk

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

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

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

Credit risk management

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

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

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

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

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

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

Internal rating systems

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

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Internal rating systems (continued)

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

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

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

Maximum exposure to credit risk before collaterals and other credit improvements

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

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

	Maximum exposure	
	31 December 2019 €	31 December 2018 €
Credit risk exposure on balance sheet items:		
Balances with Central Banks	224.345.059	184.735.746
Placements with other banks	90.502.226	107.672.594
Loans and advances to customers	997.890.657	578.632.744
Financial assets at amortised cost	698.532.762	371.357.596
Financial assets at fair value through profit or loss	23.168.149	16.275.241
Derivative financial instruments	225.113	63.173
Other assets	8.051.758	757.655
	2.042.715.724	1.259.494.749
Credit risk exposure from off balance sheet items:		
Credit guarantees	17.140.114	17.182.388
Letters of guarantee	54.128.848	30.131.846
Unutilised credit limits	113.219.552	82.431.443
	184.488.514	129.745.677
Total on and off balance sheet items	2.227.204.238	1.389.240.426

According to the above table, 14% (31 December 2018: 21%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 45% (31 December 2018: 42%) from loans and advances to customers and 32% (31 December 2018: 27%) is derived from investment in bonds classified at amortised cost and at fair value through profit or loss.

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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 2019 €	31 December 2018 €
On balance sheet		
Cyprus	1.378.636.391	927.625.844
Greece	298.291.905	64.751.873
Other countries	365.787.428	267.117.032
	2.042.715.724	1.259.494.749
Off balance sheet		
Cyprus	163.026.321	103.741.631
Greece	8.635.257	2.482.985
Other countries	12.826.936	23.521.061
	184.488.514	129.745.677
Total on and off balance sheet		
Cyprus	1.541.662.712	1.031.367.475
Greece	306.927.162	67.234.858
Other countries	378.614.364	290.638.093
	2.227.204.238	1.389.240.426

Geographical analysis is based on the counterparty country of risk.

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 open market value after indexation capped at the gross loans amount.

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

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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

31 December 2019	Exposure to credit risk	Cash	Letters of credit/ guarantee	Other	Property	Total collateral	Net exposure to credit risk	Surplus collateral
	€	€	€	€	€	€	€	€
Balances with Central Banks	224.345.059	-	-	-	-	-	224.345.059	-
Placements with other banks	90.502.226	-	-	-	-	-	90.502.226	-
Derivative financial instruments	225.113	-	-	-	-	-	225.113	-
Financial assets at fair value through profit or loss	23.168.149	-	-	-	-	-	23.168.149	-
Financial assets at amortised cost	698.532.762	-	-	-	-	-	698.532.762	-
Loans and advances to customers	997.890.657	27.658.855	56.526.786	41.413.342	699.621.001	825.219.984	172.670.673	389.574.590
Other assets	8.051.758	-	-	-	-	-	8.051.758	-
Total on balance sheet	2.042.715.724	27.658.855	56.526.786	41.413.342	699.621.001	825.219.984	1.217.495.740	389.574.590
Credit guarantees	17.140.114	-	-	-	87.712	87.712	17.052.402	-
Letters of guarantee	54.128.848	8.164.078	-	526.444	4.874.939	13.565.461	40.563.387	3.510.161
Unutilised limits	113.219.552	-	-	-	-	-	113.219.552	-
Total off balance sheet	184.488.514	8.164.078	-	526.444	4.962.651	13.653.173	170.835.341	3.510.161

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

31 December 2018	Exposure to credit risk	Cash	Letters of credit/ guarantee	Other	Property	Total collateral	Net exposure to credit risk	Surplus collateral
	€	€	€	€	€	€	€	€
Balances with Central Banks	200.763.030	-	-	-	-	-	200.763.030	-
Placements with other banks	107.672.594	-	-	-	-	-	107.672.594	-
Derivative financial instruments	63.173	-	-	-	-	-	63.173	-
Financial assets at fair value through profit or loss	16.275.241	-	-	-	-	-	16.275.241	-
Financial assets at amortised cost	371.357.596	-	-	-	-	-	371.357.596	-
Loans and advances to customers	578.632.744	23.454.026	56.907.194	12.521.062	362.055.132	454.937.414	123.695.330	162.899.588
Other assets	757.655	-	-	-	-	-	757.655	-
Total on balance sheet	1.259.494.749	23.454.026	56.907.194	12.521.062	362.055.132	454.937.414	804.557.335	162.899.588
Credit guarantees	17.182.388	-	-	-	-	-	17.182.388	-
Letters of guarantee	30.131.846	1.075.550	-	53.239	2.991.478	4.120.267	26.011.579	11.159.587
Unutilised limits	82.431.443	-	-	-	-	-	82.431.443	-
Total off balance sheet	129.745.677	1.075.550	-	53.239	2.991.478	4.120.267	125.625.410	11.159.587

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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.

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.

Fair value adjustment on initial recognition

The fair value adjustment on initial recognition related 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 decreased the gross balance of loans and advances to customers.

The Group presents its credit risk concentration below, which is based on industry (economic activity) concentration and by business line under which its customers are managed.

31 December 2019	Gross loans at amortised cost before residual fair value adjustment on initial recognition	Residual fair value adjustment on initial recognition	Gross loans at amortised cost after residual fair value adjustment on initial recognition
	€	€	€
Commerce	138.531.804	(21.994.420)	116.537.384
Financial institutions	74.527.377	(2.200.935)	72.326.442
Governments	3.305.318	-	3.305.318
Industrial	52.259.321	(7.151.653)	45.107.668
Other sectors	585.085.039	(61.057.372)	524.027.667
Real estate and construction	346.208.173	(45.498.351)	300.709.822
Tourism	103.747.620	(7.689.345)	96.058.275
Total	1.303.664.652	(145.592.076)	1.158.072.576

31 December 2018	Gross loans at amortised cost before residual fair value adjustment on initial recognition	Residual fair value adjustment on initial recognition	Gross loans at amortised cost after residual fair value adjustment on initial recognition
	€	€	€
Commerce	85.836.445	-	85.836.445
Financial institutions	59.557.553	-	59.557.553
Governments	3.956.745	-	3.956.745
Industrial	28.268.271	-	28.268.271
Other sectors	353.654.966	-	353.654.966
Real estate and construction	187.816.172	-	187.816.172
Tourism	40.650.959	-	40.650.959
Total	759.741.111	-	759.741.111

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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

Fair value adjustment on initial recognition (continued)

31 December 2019	Gross loans at amortised cost before residual fair value adjustment on initial recognition €	Residual fair value adjustment on initial recognition €	Gross loans at amortised cost after residual fair value adjustment on initial recognition €
Corporate	650.385.387	455.459	650.840.846
IBU	2.794.286	(1.621)	2.792.665
RBU	412.953.599	(146.570.625)	266.382.974
Retail	237.070.444	524.711	237.595.155
Wealth management	460.936	-	460.936
Total	1.303.664.652	(145.592.076)	1.158.072.576

31 December 2018	Gross loans at amortised cost before residual fair value adjustment on initial recognition €	Residual fair value adjustment on initial recognition €	Gross loans at amortised cost after residual fair value adjustment on initial recognition €
Corporate	320.417.021	-	320.417.021
IBU	2.505.224	-	2.505.224
RBU	252.368.187	-	252.368.187
Retail	184.030.697	-	184.030.697
Wealth management	419.982	-	419.982
Total	759.741.111	-	759.741.111

Currency concentration of loans and advances to customers

31 December 2019	Gross loans at amortised cost before residual fair value adjustment on initial recognition €	Residual fair value adjustment on initial recognition €	Gross loans at amortised cost after residual fair value adjustment on initial recognition €
Euro	1.148.748.661	(143.388.311)	1.005.360.350
US Dollar	96.862.276	(112.878)	96.749.398
British Pound	35.463.698	-	35.463.698
Swiss Franc	21.227.321	(1.425.680)	19.801.641
Japanese Yen	1.362.696	(665.207)	697.489
Total	1.303.664.652	(145.592.076)	1.158.072.576

31 December 2018	Gross loans at amortised cost before residual fair value adjustment on initial recognition €	Residual fair value adjustment on initial recognition €	Gross loans at amortised cost after residual fair value adjustment on initial recognition €
Euro	701.867.144	-	701.867.144
US Dollar	33.529.432	-	33.529.432
British Pound	2.859.959	-	2.859.959
Swiss Franc	21.432.874	-	21.432.874
Japanese Yen	51.702	-	51.702
Total	759.741.111	-	759.741.111

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Analysis of loans and advances to customers by staging

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

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross loans at amortised cost before residual fair value adjustment on initial recognition	379.553.852	59.376.529	288.268.791	32.541.939	759.741.111
Residual fair value adjustment on initial recognition	-	-	-	-	-
Gross loans at amortised cost after residual fair value adjustment on initial recognition	379.553.852	59.376.529	288.268.791	32.541.939	759.741.111

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

31 December 2019	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross loans at amortised cost before residual fair value adjustment on initial recognition					
Corporate	495.764.808	92.715.632	40.295.546	21.609.401	650.385.387
IBU	2.121.310	1.703	670.433	840	2.794.286
RBU	5.385.201	1.314.975	131.003.919	275.249.504	412.953.599
Retail	138.284.826	17.960.820	75.197.556	5.627.242	237.070.444
Wealth management	1.646	-	459.290	-	460.936
Total	641.557.791	111.993.130	247.626.744	302.486.987	1.303.664.652

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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

31 December 2019	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Residual fair value adjustment on initial recognition					
Corporate	895.710	128.429	(185.356)	(383.324)	455.459
International Banking services	(893)	-	(6)	(722)	(1.621)
Recoveries Banking Unit	(7.039)	95.478	(87.902)	(146.571.162)	(146.570.625)
Retail	776.518	269.885	(20.706)	(500.986)	524.711
Wealth management	-	-	-	-	-
Total	1.664.296	493.792	(293.970)	(147.456.194)	(145.592.076)

31 December 2019	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross loans at amortised cost after residual fair value adjustment on initial recognition					
Corporate	496.660.518	92.844.061	40.110.190	21.226.077	650.840.846
International Banking services	2.120.417	1.703	670.427	118	2.792.665
Recoveries Banking Unit	5.378.162	1.410.453	130.916.017	128.678.342	266.382.974
Retail	139.061.344	18.230.705	75.176.850	5.126.256	237.595.155
Wealth management	1.646	-	459.290	-	460.936
Total	643.222.087	112.486.922	247.332.774	155.030.793	1.158.072.576

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross loans at amortised cost before residual fair value adjustment on initial recognition					
Corporate	292.755.431	13.763.861	13.791.646	106.084	320.417.022
International Banking services	1.503.108	6.087	996.029	-	2.505.224
Recoveries Banking Unit	115.927	33.245.698	190.764.092	28.242.470	252.368.187
Retail	85.178.504	12.360.882	82.297.926	4.193.385	184.030.697
Wealth management	883	-	419.098	-	419.981
Total	379.553.853	59.376.528	288.268.791	32.541.939	759.741.111

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Residual fair value adjustment on initial recognition					
Corporate	-	-	-	-	-
International Banking services	-	-	-	-	-
Recoveries Banking Unit	-	-	-	-	-
Retail	-	-	-	-	-
Wealth management	-	-	-	-	-
Total	-	-	-	-	-

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross loans at amortised cost after residual fair value adjustment on initial recognition					
Corporate	292.755.431	13.763.861	13.791.646	106.084	320.417.022
International Banking services	1.503.108	6.087	996.029	-	2.505.224
Recoveries Banking Unit	115.927	33.245.698	190.764.092	28.242.470	252.368.187
Retail	85.178.504	12.360.882	82.297.926	4.193.385	184.030.697
Wealth management	883	-	419.098	-	419.981
Total	379.553.853	59.376.528	288.268.791	32.541.939	759.741.111

Geographical analysis

The following table presents the staging of the Group's loans and advances to customers at amortised cost before residual fair value adjustment on initial recognition by geographical analysis:

31 December 2019	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Cyprus	495.358.487	103.651.279	241.943.161	300.894.525	1.141.847.452
Other countries	146.199.304	8.341.851	5.683.583	1.592.462	161.817.200
Total	641.557.791	111.993.130	247.626.744	302.486.987	1.303.664.652

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Cyprus	347.315.677	57.552.219	285.773.650	32.541.939	723.183.485
Other countries	32.238.175	1.824.310	2.495.141	-	36.557.626
Total	379.553.852	59.376.529	288.268.791	32.542.939	759.741.111

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	€	€	€	€	€
Outstanding exposure as at 1 January 2019	40.920.134	-	6.394.099	-	47.314.233
USB acquired exposures	16.477.243	-	-	2.830.291	19.307.534
New exposures	39.620.848	-	-	-	39.620.848
Exposures derecognised or matured (excluding write-offs)	(25.696.529)	-	(18.973)	(680.010)	(26.395.512)
Transfers to Stage 1	700	-	(700)	-	-
Transfers to Stage 2	(1.082.996)	1.083.509	(513)	-	-
Transfers to Stage 3	(2.825.053)	-	2.825.053	-	-
Change in credit risk	(8.467.463)	-	(428.082)	687.501	(8.208.045)
Impact on year end ECL of exposures transferred between stages during the year	-	43.902	-	-	43.902
At 31 December 2019	58.532.885	1.127.411	8.770.884	2.837.782	71.268.962

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	€	€	€	€	€
ECLs as at 1 January 2019	415.571	-	203.822	-	619.393
New exposures	147.904	-	-	-	147.904
Exposures acquired from acquisition of USB Bank business	-	-	-	453.234	453.234
Exposures derecognised or matured (excluding write-offs)	(31.371)	-	(2.309)	-	(33.680)
Transfers to Stage 1	82	-	(82)	-	-
Transfers to Stage 2	(257.617)	257.676	(59)	-	-
Transfers to Stage 3	(44.844)	-	44.844	-	-
Change in credit risk	(60.081)	-	12.261	-	47.820
Impact on year end ECL of exposures transferred between stages during the year	(77)	(169.771)	140	-	(169.708)
At 31 December 2019	169.567	87.905	258.617	453.234	969.323
Individually assessed	-	-	252.399	437.168	689.567
Collectively assessed	169.567	87.905	6.218	16.066	279.756
	169.567	87.905	258.617	453.234	969.323

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Contingent liabilities and commitments (continued)

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Outstanding exposure as at 1 January 2018	32.724.164	2.318.092	820.311	35.862.567
New exposures	28.644.490	-	855	28.645.345
Exposures derecognised or matured (excluding write-offs)	(16.540.462)	(515.760)	(137.456)	(17.193.678)
Transfers to Stage 1	2.242.042	(1.802.332)	(439.710)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(6.150.099)	-	6.150.099	-
At 31 December 2018	40.920.135	-	6.394.099	47.314.234

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	Total €
ECLs as at 1 January 2018	170.072	187.251	302.460	659.783
New exposures	44.514	-	100	44.614
Exposures derecognised or matured (excluding write-offs)	(22.405)	(71.451)	(88.652)	(182.508)
Transfers to Stage 1	122.313	(115.800)	(6.513)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(50.266)	-	50.266	-
Impact on year end ECL of exposures transferred between stages during the year	151.343	-	(53.839)	97.504
At 31 December 2018	415.571	-	203.822	619.393
Individually assessed	139.026	-	1.852	140.878
Collectively assessed	276.545	-	201.970	478.515
	415.571	-	203.822	619.393

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

31 December 2019	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Cyprus	44.640.606	1.127.411	8.770.334	2.367.432	56.905.783
Other countries	13.892.279	-	550	470.350	14.363.179
Total	58.532.885	1.127.411	8.770.884	2.837.782	71.268.962

31 December 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Cyprus	25.184.014	-	6.394.099	-	31.578.113
Other countries	15.736.121	-	-	-	15.736.121
Total	40.920.135	-	6.394.099	-	47.314.234

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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 2019

	Stage1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Balances with Central Banks	224.345.059	-	-	-	224.345.059
Placements with other Banks	90.740.356	-	-	-	90.740.356
Financial assets amortised cost	700.178.089	-	-	-	700.178.089
Loans and advances to customers	643.222.087	112.486.922	247.332.774	155.030.793	1.158.072.576
Other assets	8.051.758	-	-	-	8.051.758
Total financial assets in scope of ECL requirements	1.666.537.349	112.486.922	247.332.774	155.030.793	2.181.387.838
Credit guarantees	17.124.682	-	15.432	-	17.140.114
Letters of guarantee	41.408.203	1.127.411	8.755.452	2.837.782	54.128.848
Unutilised limits	109.048.585	1.155.049	2.680.529	335.389	113.219.552
Total off-balance sheet instruments in scope of ECL requirements	167.581.470	2.282.460	11.451.413	3.173.171	184.488.514

31 December 2018

	Stage1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Balances with Central Banks	184.735.746	-	-	-	184.735.746
Placements with other Banks	107.672.594	-	-	-	107.672.594
Financial assets at amortised cost	371.357.596	-	-	-	371.357.596
Loans and advances to customers	379.553.852	59.376.529	288.268.791	32.541.939	759.741.111
Other assets	757.655	-	-	-	757.655
Total financial assets in scope of ECL requirements	1.044.077.443	59.376.529	288.268.791	32.541.939	1.424.264.702
Credit guarantees	17.182.388	-	-	-	17.182.388
Letters of guarantee	23.737.747	-	6.394.099	-	30.131.846
Unutilised limits	81.013.205	392.329	1.025.909	-	82.431.443
Total off-balance sheet instruments in scope of ECL requirements	121.933.340	392.329	7.420.008	-	129.745.677

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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 2019

	Stage1	Stage 2	Stage 3	POCI	Total
	€	€	€	€	€
Balances with Central Banks	-	-	-	-	-
Placements with other Banks	238.130	-	-	-	238.130
Financial assets at amortised cost	1.645.327	-	-	-	1.645.327
Loans and advances to customers	4.503.506	2.235.618	129.221.697	24.221.098	160.181.919
Other assets	-	-	-	-	-
Total financial assets in scope of ECL requirements	6.386.963	2.235.618	129.221.697	24.221.098	162.065.376
Credit guarantees	1.505	-	-	-	1.505
Letters of guarantee	168.062	87.905	258.617	453.234	967.818
Total off-balance sheet instruments in scope of ECL requirements	169.567	87.905	258.617	453.234	969.323

31 December 2018

	Stage1	Stage 2	Stage 3	POCI	Total
	€	€	€	€	€
Balances with Central Banks	-	-	-	-	-
Placements with other Banks	-	-	-	-	-
Financial assets at amortised cost	391.404	-	-	-	391.404
Loans and advances to customers	4.338.669	2.181.392	146.778.368	27.809.938	181.108.367
Other assets	-	-	-	-	-
Total financial assets in scope of ECL requirements	4.730.073	2.181.392	146.778.368	27.809.938	181.499.771
Credit guarantees	390	-	-	-	390
Letters of guarantee	415.182	-	203.821	-	619.003
Total off-balance sheet instruments in scope of ECL requirements	415.572	-	203.821	-	619.393

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

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Geographical analysis

The following table presents the carrying amount of the Group's financial assets which are subject to credit risk by geographical sector. For the purposes of this table, the distribution of the exposure on financial assets in the geographical sectors has been performed based on the relevant counterparties' country of operation.

	Cyprus	Greece	Other countries	Total
	€	€	€	€
31 December 2019				
Credit risk exposure from on balance sheet assets:				
Balances with Central Banks	224.345.059	-	-	224.345.059
Placements with other banks	-	59.236.606	31.265.620	90.502.226
Loans and advances to customers	838.969.207	39.556.574	119.364.876	997.890.657
Debt securities at amortised cost	304.579.094	195.798.422	198.155.246	698.532.762
Financial assets at FVTPL	2.570.693	3.647.341	16.950.115	23.168.149
Derivative financial instruments	120.580	52.962	51.571	225.113
Other assets	8.051.758	-	-	8.051.758
Total on balance sheet assets	1.378.636.391	298.291.905	365.787.428	2.042.715.724
Credit risk exposure from off balance sheet assets:				
Credit guarantees	7.351.298	903.882	8.884.934	17.140.114
Letters of guarantee	49.554.483	3.552.572	1.021.793	54.128.848
Unutilised credit limits	106.120.540	4.178.803	2.920.209	113.219.552
Total off balance sheet assets	163.026.321	8.635.257	12.826.936	184.488.514
Total on and off balance sheet assets as at 31 December 2019	1.541.662.712	306.927.162	378.614.364	2.227.204.238

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Geographical analysis (continued)

	Cyprus	Greece	Other countries	Total
	€	€	€	€
31 December 2018				
Credit risk exposure from on balance sheet assets:				
Balances with Central Banks	184.735.746	-	-	184.735.746
Placements with other banks	999.956	767.215	105.905.423	107.672.594
Loans and Advances to customers	543.663.057	13.206.962	21.762.725	578.632.744
Financial assets at amortised cost	195.611.827	50.744.554	125.001.215	371.357.596
Financial assets at FVTPL	1.851.152	-	14.424.089	16.275.241
Derivative financial instruments	6.451	33.142	23.580	63.173
Other Assets	757.655	-	-	757.655
Total on balance sheet assets	927.625.844	64.751.873	267.117.032	1.259.494.749
Credit risk exposure from off balance sheet assets:				
Credit guarantees	1.887.016	-	15.295.372	17.182.388
Letters of guarantee	29.695.598	29.485	406.763	30.131.846
Unutilised credit limits	72.163.822	1.527.213	8.740.408	82.431.443
Total off balance sheet assets	103.746.436	1.556.698	24.442.543	129.745.677
Total on and off balance sheet assets as at 31 December 2018	1.031.372.280	66.308.571	291.559.575	1.389.240.426

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Business sector analysis

The table below presents the carrying amount of the Group's financial assets that are subject to credit risk based on the business sector in which the counterparty operates.

	Industrial	Tourism	Commerce	Real estate and Construction	Financial Institutions	Governments	Other sectors	Total
	€	€	€	€	€	€	€	€
31 December 2019								
Balances with Central Banks	-	-	-	-	224.345.059	-	-	224.345.059
Placements with other banks	-	-	-	-	90.502.226	-	-	90.502.226
Advances:								
Advances to retail	129.583	400.471	566.078	646.759	3.762	-	234.761.381	236.508.034
Large entities & organisations	15.305.619	17.680.535	32.022.311	12.989.452	12.278.101	-	78.494.723	168.770.741
Small and medium size enterprises	24.364.692	69.942.657	70.257.472	238.052.522	58.505.090	3.256.147	128.233.302	592.611.882
Financial assets at amortised cost	-	-	-	-	66.230.591	632.302.171	-	698.532.762
Financial assets at fair value through profit or loss	-	-	-	-	13.943.672	309.436	8.915.041	23.168.149
Derivative financial instruments	-	-	-	-	225.113	-	-	225.113
Other assets	-	-	-	-	-	-	8.051.758	8.051.758
	39.799.894	88.023.663	102.845.861	251.688.733	466.033.614	635.867.754	458.456.205	2.042.715.724
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	7.449.265	-	9.025.815	-	-	-	615.034	17.140.114
Letters of guarantee	2.003.346	1.112.410	12.568.386	29.044.189	1.751.949	10.000	7.638.568	54.128.848
Unutilised credit limits	16.615.235	6.272.833	25.496.877	19.081.364	267.212	568.445	44.917.586	113.219.552
	26.117.846	7.385.243	47.091.078	48.125.553	2.091.161	578.445	53.171.188	184.488.514
Total on and off balance sheet assets 31 December 2019	65.917.740	95.408.906	149.936.939	299.814.286	468.052.775	636.446.199	511.627.393	2.227.204.238

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

	Industrial	Tourism	Commerce	Real estate and Construction	Financial Institutions	Governments	Other sectors	Total
	€	€	€	€	€	€	€	€
31 December 2018								
Balances with Central Banks	-	-	-	-	184.735.746	-	-	184.735.746
Placements with other banks	-	-	-	-	107.672.594	-	-	107.672.594
Advances:								
Advances to retail	30.809	-	28.648	16.555	-	-	143.114.634	143.190.646
Advances to businesses:								
Large entities & organisations	10.534.702	13.892.638	29.234.163	7.683.908	14.310.659	-	68.617.162	144.273.232
Small and medium size enterprises	13.009.090	17.542.507	42.704.451	122.655.642	41.608.232	3.874.968	49.773.976	291.168.866
Financial assets at amortised cost	-	-	-	-	136.218.067	235.139.529	-	371.357.596
Financial assets at fair value through profit or loss	-	-	-	-	5.968.641	1.582.119	8.724.481	16.275.241
Derivative financial instruments	-	-	-	-	63.173	-	-	63.173
Other assets	-	-	-	-	-	-	757.655	757.655
	23.574.601	31.435.145	71.967.262	130.356.105	490.577.112	240.596.616	270.987.908	1.259.494.749
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	6.323.940	-	3.498.696	-	7.359.752	-	-	17.182.388
Letters of guarantee	1.170.509	12.265	8.668.034	14.152.354	1.503.147	10.000	4.615.537	30.131.846
Unutilised credit limits	14.904.682	6.540.772	11.191.710	8.799.041	7.555.516	533.517	32.906.205	82.431.443
	22.399.131	6.553.037	23.358.440	22.951.395	16.418.415	543.517	37.521.742	129.745.677
Total on and off balance sheet assets 31 December 2018	45.973.732	37.988.182	95.325.702	153.307.500	506.995.527	241.140.133	308.509.650	1.389.240.426

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Write offs

Write offs subject to enforcement activity
The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is €44,8m (2018: €31,2m).

Debt write-offs
The contractual amount on financial assets that were written off during the reporting period is €9,8m (2018:€20m).

Risk of counterparty banks

The Bank runs the risk of loss of capital due to the possibility that a counterparty bank will delay or default on its payments on any existing or contingent liabilities. Through its daily operations, the Bank enters into transactions with other Banks and financial institutions. By entering into these transactions the Bank runs the risk of incurring losses in the event of late repayments or default of existing and contingent liabilities of the counterparty banks.

The limits set for counterparty banks reflect the level of risk that is considered acceptable and are then distributed to the Treasury Department or to any other service department where this kind of risk exists, based on the needs and volume of transactions within each service department. Generally, the limits are determined by banking sector evaluation models, as well as by the requirements of the supervisory authorities. The credit limit set for each counterparty is divided into sub-limits covering placements, investments, foreign exchange trading as well as the daily clearing limit. Actual positions are monitored against the limits on a daily basis and in real time.

Country risk

The Bank runs the risk of losing capital due to possible political, economic and other events in a particular country where the Bank's capital or liquid funds have been placed or invested in local banks and financial institutions. All countries are evaluated based on their size, economic data and country prospects and credit-worthiness rates provided by international credit rating agencies (Fitch, Moody's and Standard & Poor's). Actual country positions are monitored against their limits on a regular basis. Review of the limits is performed at least once a year with smaller countries with a lower degree of credit-worthiness going through a more extended and more frequent analysis and evaluation, where appropriate.

Credit risk concentration

There are restrictions to the concentration of credit risk as per the Cyprus Banking Law and the relevant Capital Requirements Regulation (CRR) issued by the European Union. According to these restrictions, exposures to customers or group of connected customers, other than institutions, shall not exceed 25% of a bank's own funds, after taking into account the effect of credit risk mitigation in accordance with articles 399-403 of CRR. Exposures to institutions shall not exceed 25% of a bank's capital base or €150m whichever is higher. Where the amount of €150m is higher than 25% of a Bank's own funds, after taking into account the effect of credit risk mitigation techniques, the limit shall not exceed 100% of a bank's own funds. As at and during the period ended 31 December 2019 there were no violations of the CRR Large Exposure Limits.

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Credit risk concentration (continued)

As at and during the year ended 31 December 2019 the Bank exceeded the maximum legal lending limit to a major shareholder under the Cyprus Banking Law primarily due to a credit enhancement provided, in the form of a guarantee, by Piraeus Bank S.A. as part of the transaction between Piraeus Bank S.A. and Holding M. Sehnaoui SAL. The Central Bank of Cyprus has been notified accordingly and has not requested any remedial action from the Bank.

Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, exchange rates, property and security prices. The Market risk (including Interest Rate Risk in the Banking Book) is managed by the Bank's Treasury that operates within the approved limits. The Risk Management Unit (RMU) monitors the risk resulting from such changes which are governed by the Market Risk Policy, the Market Risk Limits Management Procedure and Interest Rate Risk Methodology to ensure compliance with the regulatory and approved limits. The RMU also monitors liquidity risk and credit risk with counterparties and countries.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments and net interest income will decrease due to adverse movements in market interest rates. Interest rate risk arises due to timing differences in the re-pricing of interest rates or the maturity of assets and liabilities. Interest rate risk arises mainly from interest bearing banking activities and the Bank's loan portfolio.

With regards to balance sheet items in the Group's portfolio as at 31 December 2019 a parallel increase in market interest rates across all currencies by 200 basis points would result in an increase in profit before tax by €7,2m (2018: €5,6m). A parallel decrease in market interest rates by 200 basis points would result in an decrease in profit before tax by €7,2m (2018: €5,6m).

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.

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Interest rate risk (continued)

	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years	Non-interest bearing items	Total
	€	€	€	€	€	€	€
31 December 2019							
Assets							
Balances with Central Banks	224.345.059	-	-	-	-	17.480.230	241.825.289
Placements with other Banks	90.502.226	-	-	-	-	-	90.502.226
Loans and advances to customers	520.132.804	364.354.445	95.089.035	6.825.819	11.488.554	-	997.890.657
Financial assets at amortised cost	144.199.999	119.443.835	98.176.197	286.646.048	50.066.683	-	698.532.762
Financial assets at fair value through profit or loss	6.218.036	8.035.074	-	8.915.040	-	7.830.876	30.999.026
Derivative financial instruments	-	-	-	-	-	225.113	225.113
Other assets	-	-	-	-	-	9.428.048	9.428.048
	985.398.124	491.833.354	193.265.232	302.386.907	61.555.237	34.964.267	2.069.403.121
31 December 2019							
Liabilities							
Due to other banks	9.795.478	-	-	-	8.125.748	-	17.921.226
Customer deposits	1.459.650.788	197.097.399	350.676.898	-	-	-	2.007.425.085
Derivative financial instruments	-	-	-	-	-	156.006	156.006
Other liabilities	-	-	-	-	-	50.976.435	50.976.435
Total	1.469.446.266	197.097.399	350.676.898	-	8.125.748	51.132.441	2.076.478.752
Net balance sheet position	(484.048.142)	294.735.955	(157.411.666)	302.386.907	53.429.489		

37. MANAGEMENT OF FINANCIAL RISKS

Interest rate risk (continued)

	Up to 1 month €	Between 1 and 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	Over 5 years €	Non-interest bearing items €	Total €
31 December 2018							
Assets							
Balances with Central Banks	184.735.746	-	-	-	-	16.027.284	200.763.030
Placements with other Banks	107.672.594	-	-	-	-	-	107.672.594
Loans and advances to customers	273.551.128	237.136.732	66.974.426	510.592	459.866	-	578.632.744
Financial assets at amortised cost	35.832.616	20.654.235	118.907.643	118.571.935	77.391.167	-	371.357.596
Financial assets at fair value through profit or loss	1.851.152	5.699.608	-	8.724.481	-	6.633.924	22.909.165
Derivative financial instruments	-	-	-	-	-	63.173	63.173
Other assets	-	-	-	-	-	1.777.592	1.777.592
	603.643.236	263.490.575	185.882.069	127.807.008	77.851.033	24.501.973	1.283.175.894
31 December 2018							
Liabilities							
Due to other banks	309.758	-	14.830.444	-	-	-	15.140.202
Customer deposits	846.376.541	136.541.813	237.507.138	-	-	-	1.220.425.492
Derivative financial instruments	-	-	-	-	-	807.898	807.898
Other liabilities	-	-	-	-	-	48.554.765	48.554.765
Total	846.686.299	136.541.813	252.337.582	-	-	49.362.663	1.284.928.357
Net balance sheet position	(243.043.063)	126.948.762	(66.455.513)	127.807.008	77.851.033		

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk

Currency risk is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates. Currency risk arises from a positive or negative open position in a foreign currency, exposing the Group to changes in the relevant exchange rate. This risk may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or from derivatives.

The Bank enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Bank's Treasury department also enters into spot foreign exchange transactions within predefined and approved limits, as well as transactions in derivatives such as foreign exchange forward contracts and foreign exchange swaps.

The following risk exposure calculation methods and associated limit structures are used for monitoring:

a. Open position by currency – net positive or negative position in each currency.
b. Total net positive or negative position.

The approved limits are systematically monitored and reviewed and are assessed at least annually. These limits may be modified, according to the strategy of the Bank and the prevailing market conditions.

Currency	Change in exchange rate	2019 Impact on consolidated income statement €000	2018 Impact on consolidated income statement €000
United States Dollar	+10% (-10%)	+205 (-205)	+14 (-14)
Pound sterling	+10% (-10%)	+4 (-4)	+3 (-3)
Swiss Franc	+10% (-10%)	-152 (+152)	+9 (-9)
Other currencies	+10% (-10%)	-63 (+63)	+5 (-5)

The following table summarises the Group's exposure to currency risk. In the table the carrying values of the Group's assets and liabilities are presented, categorized by currency. The table also presents the notional amount of derivative financial instruments, categorized by currency.

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk (continued)

2019	Euro €	US Dollar €	Pound sterling €	Swiss Franc €	Other currencies €	Total €
Assets						
Balances with Central Banks	241.315.328	351.815	145.557	4.867	7.722	241.825.289
Placements with other banks	71.539.326	4.078.957	2.948.242	569.898	11.365.803	90.502.226
Loans and advances to customers	855.748.598	95.730.806	35.460.188	10.230.488	720.577	997.890.657
Financial assets at amortised cost	577.052.351	121.480.411	-	-	-	698.532.762
Financial assets at fair value through other comprehensive income	6.227.087	-	-	-	-	6.227.087
Financial assets at fair value through profit or loss	20.092.540	10.906.486	-	-	-	30.999.026
Derivative financial instruments	119.780	53.843	43.955	-	7.535	225.113
Other assets	2.662.689	1.636.087	(6.713)	148.123	(374.847)	4.065.339
Total assets	1.774.757.699	234.238.405	38.591.229	10.953.376	11.726.790	2.070.267.499
Liabilities						
Due to other banks	17.918.995	2.231	-	-	-	17.921.226
Customer deposits	1.668.947.315	294.359.070	31.407.133	1.147.780	11.563.787	2.007.425.085
Derivative financial instruments	510	23.288	4.442	127.766	-	156.006
Other liabilities	47.078.382	3.188.484	617.529	8.202	83.838	50.976.435
Total liabilities	1.733.945.202	297.573.073	32.029.104	1.283.748	11.647.625	2.076.478.752
Equity	182.366.306	-	-	-	-	182.366.306

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk (continued)

2019	Euro €	US Dollar €	Pound sterling €	Swiss Franc €	Other currencies €	Total €
Total equity and liabilities	1.916.311.508	297.573.073	32.029.104	1.283.748	11.647.625	2.258.845.058
Net balance sheet position	(141.553.809)	(63.334.668)	6.562.125	9.669.628	79.165	(188.577.559)
Net notional amount of derivative financial instruments	(46.958.498)	65.381.843	(6.523.509)	(11.186.059)	(713.777)	-
Net foreign exchange position	(188.512.307)	2.047.175	38.616	(1.516.431)	(634.612)	(188.577.559)

2018	Euro €	US Dollar €	Pound sterling €	Swiss Franc €	Other currencies €	Total €
Assets						
Balances with Central Banks	200.478.277	133.987	141.672	5.430	3.664	200.763.030
Placements with other banks	89.783.894	4.836.896	2.953.086	931.554	9.167.164	107.672.594
Loans and advances to customers	530.879.292	32.889.566	2.858.478	11.953.706	51.702	578.632.744
Financial assets at amortised cost	312.611.580	58.746.016	-	-	-	371.357.596
Financial assets at fair value through other comprehensive income	6.990.945	-	-	-	-	6.990.945
Financial assets at fair value through profit or loss	14.184.684	8.724.481	-	-	-	22.909.165
Derivative financial instruments	30.231	-	32.942	-	-	63.173
Other assets	3.304.399	(139.818)	19.445	(884.345)	(522.089)	1.777.592
Total assets	1.158.263.302	105.191.128	6.005.623	12.006.345	8.700.441	1.290.166.839

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk (continued)

2018	Euro €	US Dollar €	Pound sterling €	Swiss Franc €	Other currencies €	Total €
Liabilities						
Due to other banks	15.114.734	1.108	-	-	24.360	15.140.202
Customer deposits	1.031.033.450	149.242.413	28.766.700	625.250	10.757.679	1.220.425.492
Derivative financial instruments	680.992	21.478	-	54.014	51.414	807.898
Other liabilities	48.861.665	(185.811)	100.931	(371.191)	149.171	48.554.765
Total liabilities	1.095.690.841	149.079.188	28.867.631	308.073	10.982.624	1.284.928.357
Equity	111.792.701	-	-	-	-	111.792.701
Total equity and liabilities	1.207.483.542	149.079.188	28.867.631	308.073	10.982.624	1.396.721.058
Net balance sheet position	(49.220.240)	(43.888.060)	(22.862.008)	11.698.272	(2.282.183)	(106.554.219)
Net notional amount of derivative financial instruments	(57.167.196)	43.833.655	22.894.897	(11.793.175)	2.231.819	-
Net foreign exchange position	(106.387.436)	(54.405)	32.889	(94.903)	(50.364)	(106.554.219)

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Risk from changes in the prices of equities and securities

The risk in relation to the prices of equity securities that are held by the Group arises from possible adverse changes in market prices of equity securities. The Group invests in listed and non-listed equity shares which, depending on the purpose of the investment, are classified in the appropriate portfolio. Currently investments in equity securities, are classified at FVTOCI and FVTPL. Cyprus government bonds and other corporate bonds listed in an active market which are held for trading, are also classified at FVTPL.

Liquidity risk

Liquidity risk is the risk that the Bank cannot find sufficient liquid funds in order to meet its immediate liabilities, without incurring significant economic costs. This risk is monitored and controlled by the Treasury Department, the Finance Division and the Risk Management Unit, in order to ensure, to the extent possible, that there is adequate liquidity to meet its obligations under normal and stress conditions.

The Bank must comply with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements Regulation (EU) No 575/2013 (CRR) of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions). The objective of LCR is to promote the short-term resilience of the liquidity risk profile of banks. The regulatory limit for LCR stands at 100%. As at 31 December 2019 the Bank's liquidity coverage ratio stood at 324, 0% (31 December 2018: 552,9%).

The Net Stable Funding Ratio (NSFR) which is a long-term liquidity measure, has not yet been introduced but it will become a regulatory indicator when CRR2 is enforced with the limit set at 100%. At 31 December 2019, the Group's NSFR, stood at 165,6% (compared to 164,0% at 31 December 2018). The NSFR's objective is to avoid excessive maturity mismatch between assets and liabilities and dependence on short-term funding and covers a one-year horizon.

Additionally, the monitoring and management of liquidity risk is achieved through the use and monitoring of the following:

The concentration, diversity and maturity profile of customer deposits

a. Adopting pricing policies that contribute to establishing a stable depository base

b. Maintaining a balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities

c. Monitoring Liquidity Monitoring Metrics (ALMM) under Article 415(3)(b) of Regulation (EU) No 575/2013.

<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.

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.

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Liquidity risk (continued)

	Up to 1 month €	Up to 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €	Total €
2019						
Financial assets						
Balances with Central Banks	241.825.289	-	-	-	-	241.825.289
Placements with other banks	90.502.226	-	-	-	-	90.502.226
Derivative financial instruments	225.113	-	-	-	-	225.113
Financial assets at fair value through profit or loss	14.048.912	8.035.074	-	8.915.040	-	30.999.026
Financial assets at fair value through other comprehensive income	6.227.087	-	-	-	-	6.227.087
Loans and advances to customers	3.222.761	6.730.404	268.696.157	218.826.211	957.289.677	1.454.765.210
Financial assets at amortised cost	144.199.999	119.443.835	98.176.197	286.646.048	50.066.683	698.532.762
Other assets	9.428.048	-	-	-	-	9.428.048
	509.679.435	134.209.313	366.872.354	514.387.299	1.007.356.360	2.532.504.761
Financial liabilities						
Due to other banks	9.795.478	-	8.125.748	-	-	17.921.226
Customer deposits	1.459.685.060	196.561.435	351.899.934	-	-	2.008.146.429
Other liabilities	50.976.435	-	-	-	-	50.976.435
	1.520.456.973	196.561.435	360.025.682	-	-	2.077.044.090
Net liquidity position	(1.010.777.538)	(62.352.122)	6.846.672	514.387.299	1.007.356.360	455.460.671

37. MANAGEMENT OF FINANCIAL RISKS (continued)

Liquidity risk (continued)

	Up to 1 month €	Up to 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €	Total €
2018						
Financial assets						
Balances with Central Banks	200.763.030	-	-	-	-	200.763.030
Placements with other banks	107.672.594	-	-	-	-	107.672.594
Derivative financial instruments	63.173	-	-	-	-	63.173
Financial assets at fair value through profit or loss	8.485.076	5.699.608	-	8.724.481	-	22.909.165
Financial assets at fair value through other comprehensive income	6.990.945	-	-	-	-	6.990.945
Loans and advances to customers	1.715.688	6.657.329	149.820.600	79.259.124	460.963.195	698.415.936
Financial assets at amortised cost	35.832.616	20.654.235	118.907.643	118.571.935	77.391.167	371.357.596
Other assets	1.777.592	-	-	-	-	1.777.592
	363.300.714	33.011.172	268.728.243	206.555.540	538.354.362	1.409.950.031
Financial liabilities						
Due to other banks	309.758	-	14.830.444	-	-	15.140.202
Customer deposits	846.400.677	136.668.417	238.289.352	-	-	1.221.358.446
Other liabilities	48.554.765	-	-	-	-	48.554.765
	895.265.200	136.668.417	253.119.796	-	-	1.285.053.413
Net liquidity position	(531.964.486)	(103.657.245)	15.608.447	206.555.540	538.354.362	124.896.618

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.

38. CAPITAL MANAGEMENT

The main objective of the Group's capital management function is to ensure compliance with the relevant supervisory capital requirements and to maintain healthy capital adequacy ratios which can support the Company's growth and safeguard the interests of its shareholders and all other stakeholders. The Central Bank of Cyprus (CBC), as part of its supervisory role, has adopted the recommendations of the Basel Committee and the European Directives on banking supervisory matters.

The Basel III Framework known as Capital Requirement Regulation ("CRR") No 575/2013 / Capital Requirement Directive IV ("CRD IV") establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.

The European Parliament and Council on 12 December 2017 issued the Regulation (EU) 2017/2395 which amends Regulation (EU) No 575/2013, regarding the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. According to the Regulation, institutions are allowed to exclude from their CET 1 capital and leverage ratios a portion of the increased expected credit loss provisions from the introduction of IFRS 9 for a transitional period of five years.

Basel III Framework comprises of three Pillars:
- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory Review and Evaluation Process
- Pillar 3 – Market discipline

Pillar 1 – Minimum capital requirements
Pillar 1 sets forth the guidelines for calculating the minimum capital requirements based on generic rules to cover the credit risk, the market risk and the operational risk to determine a bank's risk-weighted assets (RWA). Pillar I also stipulates the minimum capital requirement for banks. The requirement is 8% of RWA. But under Pillar II, the regulatory authorities can require that banks have more capital than the minimum requirement.

The Group has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighted using specific weights, depending on the class the exposures belong to and their credit rating. According to the directive, there are two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Group has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Group's collaterals.

Regarding market risk, the Group has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models. In addition, there is a capital requirement for specific risk on debt instruments in the trading book. The requirement for specific risk on debt instruments is based on issuer type, maturity and credit quality

The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a 15% as defined in CRR on the average sum of total net income on a three year basis net of non-interest income after certain qualification adjustments.

Pillar 2 – Supervisory Review and Evaluation Process ("SREP")
Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures of the Group and requires appropriate risk management, reporting and governance policies. SREP is a holistic assessment of, amongst other things: the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of SREP is for the CBC to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group.

Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process ("ICAAP"), while at the same time maintaining communication with supervisors on a continuous basis. The key objective behind ICAAP is to ensure the Bank has sufficient capital resources to support its business and be able to withstand any adverse future conditions which may threat its capital position.

38. CAPITAL MANAGEMENT (continued)

Pillar 2 – Supervisory Review and Evaluation Process ("SREP") (continued)
In conjunction with the ICAAP banks are required to prepare the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP acts as a control cycle through which the Bank identifies, evaluates, manages and monitors its liquidity risks. The key objective behind ILAAP is to ensure the Bank has sufficient liquidity resources to support its business and be able to withstand any adverse future conditions which may threat its liquidity position.

The ILAAP report is reported to the CBC and evaluated during the SREP in conjunction with the ICAAP report. During 2020 the Bank conducted the ILAAP to present an overview of the Bank's approach to liquidity risk management and an assessment of the prudent level of liquidity resources that the Bank should hold based on its liquidity risk appetite. During 2020, the Bank also conducted the ICAAP to arrive at a forward looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilizing internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework. It is noted that during the months or the preparation of the ILAAP and ICAAP reports the COVID-19 global pandemic gradually unfolded. Given the uncertainties around the duration and depth of the economic consequences of the pandemic, as well as the response to it by the governments through targeted measures, its impact on the Bank's business plan has not been fully assessed in time for incorporating within the ILAAP and ICAAP assessments. However, standalone exercises have been performed on the COVID-19 impact assessments which were presented in both the ILAAP and ICAAP reports.

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

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

Capital position
As at 31 December 2019 the Bank's capital adequacy ratio stood at 13,4% and was in compliance with the regulatory minimum Overall Capital Requirement ('OCR') of 13,35% but below the OCR including Pillar II Guidance ('P2G'). Following the capital increases described in Note 46 as of the date of issuance of these financial statements the Bank's estimated capital adequacy ratio exceeds the OCR including Pillar II Guidance ('P2G').

Leverage Ratio
According to the Regulation No.2015/62 of the European Parliament and Council dated 10 October 2017, the leverage ratio is expressed as a percentage and calculated on a quarterly basis as an institution's capital measure divided by the institution's total exposure measure. The leverage ratio is calculated using two capital measures:

(a) Tier 1 capital: fully phased-in definition

(b) Tier 1 capital: transitional definition.

Based on both the transitional and the fully phased-in definition, as at 31 December 2019 the Leverage Ratio of the Group was 8,0% compared to 7,8% as at 31 December 2018.

39. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Some differences may arise between the carrying value and the fair value. The definition of fair value assumes that the Group will continue its normal operations without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms which would bring about losses to the Group. Generally accepted methods of determining fair value include reference to quoted market prices and transactions for similar financial instruments.

The Group uses the following hierarchy to classify and disclose fair value:

Level 1: investments measured at fair value using quoted prices in active markets for similar investments;

Level 2: investments measured at fair value using valuation models in which all elements that significantly influence fair value are based on observable market data either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: investments measured at fair value using valuation models in which elements that significantly influence fair value are not based on observable market data.

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

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2019				
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	-	-	6.227.087	6.227.087
Financial assets at fair value through profit or loss	15.320.274	-	15.678.752	30.999.026
Derivative financial instruments	-	225.113	-	225.113
Property and equipment	-	-	27.813.598	27.813.598
	15.320.274	225.113	49.719.437	65.264.824
Other financial assets not measured at fair value				
Cash and balances with Central Banks	-	-	241.825.289	241.825.289
Placements with other banks	-	-	90.502.226	90.502.226
Financial assets at amortised cost	703.757.833	-	-	703.499.833
Loans and advances to customers	-	-	997.890.657	997.890.657
Other assets	-	-	9.428.048	9.428.048
	703.757.833	-	1.339.646.220	2.043.146.053
Liabilities measured at fair value				
Derivative financial instruments	-	156.006	-	156.006
	-	156.006	-	156.006
Liabilities not measured at fair value				
Amounts due to other banks and deposits from banks			17.921.226	17.921.226
Deposits and other customer accounts			2.007.425.085	2.007.425.085
Other liabilities	-	-	50.976.435	50.976.435
	-	-	2.076.322.746	2.076.322.746

There were no significant transfers between levels during the year.

39. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2018				
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	-	-	6.990.945	6.990.945
Financial assets at fair value through profit or loss	7.550.760	-	15.358.405	22.909.165
Derivative financial instruments	-	63.173	-	63.173
Investment properties	-	-	75.827.500	75.827.500
Property and equipment	-	-	24.487.944	24.487.944
	7.550.760	63.173	122.664.794	130.278.727
Other financial assets not measured at fair value				
Cash and balances with Central Banks	-	-	200.763.030	200.763.030
Placements with other banks	-	-	107.672.594	107.672.594
Financial assets at amortised cost	376.752.595	-	-	376.752.595
Loans and advances to customers	-	-	578.632.744	578.632.744
Other assets	-	-	1.777.592	1.777.592
	376.752.595	-	888.845.960	1.265.598.555
Liabilities measured at fair value				
Derivative financial instruments	-	807.898	-	807.898
	-	807.898	-	807.898
Liabilities not measured at fair value				
Amounts due to other banks and deposits from banks			15.140.202	15.140.202
Deposits and other customer accounts			1.220.425.492	1.220.425.492
Other liabilities	-	-	48.554.765	48.554.765
	-	-	1.284.120.459	1.284.120.459

There were no significant transfers between levels during the reporting 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.

39. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Adjusted comparable multiples of market prices to book value.
- Other techniques, such as discounted cash flow analysis and dividend discount model.

The fair value of the loans and advances to customers classified as Level 3 in the table above approximates their carrying amounts.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019:

	FVTOCI €	FVTPL €	PROPERTY AND EQUIPMENT €	TOTAL €
1 January 2019	6.990.945	22.972.338	24.487.944	54.451.227
Additions	-	298.583.287	2.694.458	301.397.965
Revaluation gains recognised in consolidated income statement	-	4.823.087	1.830.295	6.753.382
Revaluation (losses)/ gains recognised in consolidated statement of other comprehensive income	(763.858)	-	672.678	(91.180)
Disposals and transfers	-	(295.445.132)	(535.243)	(295.980.375)
Depreciation	-	-	(1.336.534)	(1.336.534)
Foreign exchange gain	-	190.559	-	190.559
31 December 2019	6.227.087	31.224.139	27.813.598	65.264.824
Total gains for the year included in the consolidated income statement				
Change in unrealised gains for the year included in the consolidated income statement for assets held at the end of the reporting year	-	5.113.646	1.830.295	6.803.983

39. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018 :

	FVTOCI €	FVTPL €	PROPERTY AND EQUIPMENT €	INVESTMENT PROPERTY €	TOTAL €
1 January 2018	6.247.930	28.067.603	24.085.092	64.730.039	123.130.664
Additions	65.310	168.101.134	2.294.050	7.917.195	178.377.689
Transfers from available for sale classification on first adoption of IFRS 9	-	6.633.924	-	-	6.633.924
Transfers to investment property	-	(12.225.044)	-	12.225.044	-
Disposals and transfers	-	(167.193.015)	(847.393)	(9.025.125)	(177.065.533)
Revaluation gains recognised in consolidated income statement	-	(412.264)	(310.233)	(19.653)	(742.150)
Revaluation gains recognised in consolidated statement of other comprehensive income	677.705	-	-	-	677.705
Depreciation	-	-	(733.572)	-	(733.572)
31 December 2018	6.990.945	22.972.338	24.487.944	75.827.500	130.278.727
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		(412.264)	(310.233)	(19.653)	(742.150)

40. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2019

	FVTPL	FVOCI –Equity instruments	Amortised cost	Total carrying amount
	€	€	€	€
Assets				
Balances with Central Banks	-	-	241.825.289	241.825.289
Placements with other banks	-	-	90.502.226	90.502.226
Derivative financial instruments	225.113	-	-	225.113
Loans and advances to customers	-	-	997.890.657	997.890.657
Investment securities:				
-Debt securities	14.253.109	-	698.532.762	712.785.871
-Equity securities	15.678.753	6.227.087	-	21.905.840
-Other investments	1.067.164	-	-	1.067.164
Other assets	-	-	9.428.048	9.428.048
Total financial assets	31.224.139	6.227.087	2.038.178.982	2.075.630.208
Liabilities				
Derivative financial instruments	156.006	-	-	156.006
Amounts due to other banks and deposits from banks	-	-	17.921.226	17.921.226
Deposits and other customer accounts	-	-	2.007.425.085	2.007.425.085
Other liabilities	-	-	50.976.435	50.976.435
Total financial liabilities	156.006	-	2.076.322.746	2.076.478.752

31 December 2018

	FVTPL	FVOCI – Equity instruments	Amortised cost	Total carrying amount
	€	€	€	€
Assets				
Cash and deposits with Central Bank	-	-	200.763.030	200.763.030
Placements with other banks	-	-	107.672.594	107.672.594
Derivative financial instruments	63.173	-	-	63.173
Loans and advances to customers	-	-	578.632.744	578.632.744
Investment securities:				
-Debt securities	7.550.760	-	371.357.596	378.908.356
-Equity securities	15.358.405	6.990.945	-	22.349.350
Other assets	-	-	1.777.592	1.777.592
Total financial assets	22.972.338	6.990.945	1.260.203.556	1.290.166.839
Liabilities				
Derivative financial instruments	807.898	-	-	807.898
Amounts due to other banks and deposits from banks	-	-	15.140.202	15.140.202
Deposits and other customer accounts	-	-	1.220.425.492	1.220.425.492
Other liabilities	-	-	48.554.765	48.554.765
Total financial liabilities	807.898	-	1.284.120.459	1.284.928.357

41. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

	2019			2018		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€	€	€	€	€	€
Assets						
Cash and balances with Central Banks	224.069.184	17.756.105	241.825.289	189.894.530	10.868.500	200.763.030
Placements with other banks	90.502.226	-	90.502.226	107.672.594	-	107.672.594
Derivative financial instruments	225.113	-	225.113	63.173	-	63.173
Financial assets at FVTPL	20.092.540	10.906.486	30.999.026	7.550.760	15.358.405	22.909.165
Financial assets at FVTOCI	-	6.227.087	6.227.087	-	6.990.945	6.990.945
Financial assets at amortised cost	361.820.031	336.712.731	698.532.762	175.394.494	195.963.102	371.357.596
Loans and advances to customers	88.110.664	909.779.993	997.890.657	46.326.083	532.306.661	578.632.744
Other assets	8.022.899	1.405.148	9.428.048	1.777.592	-	1.777.592
Investment properties	-	-	-	3.475.020	72.352.480	75.827.500
Stock of property	3.088.800	144.576.172	147.664.972	-	-	-
Property and equipment	-	27.813.598	27.813.598	-	24.487.944	24.487.944
Right of use assets	-	8.132.746	8.132.746	-	-	-
Intangible assets	-	3.047.619	3.047.619	-	1.125.231	1.125.231
Deferred tax asset	-	3.789.023	3.789.023	-	5.857.226	5.857.226
Total assets	795.931.457	1.470.146.709	2.266.078.166	532.154.246	865.310.494	1.397.464.740
Liabilities						
Amounts due to other banks and deposits from banks	9.795.478	8.125.748	17.921.226	15.140.202	-	15.140.202
Derivative financial instruments	156.006	-	156.006	807.898	-	807.898
Deposits and other customer accounts	231.814.585	1.775.610.500	2.007.425.085	133.575.518	1.086.849.974	1.220.425.492
Current tax liability	111.225	-	111.225	-	107.887	107.887
Lease liabilities	724.653	5.112.211	5.836.864	-	-	-
Other liabilities	41.756.280	9.220.155	50.976.435	48.554.765	-	48.554.765
Deferred tax liability	-	1.285.019	1.285.019	-	635.795	635.795
Total liabilities	284.358.227	1.799.353.633	2.083.711.860	198.078.383	1.087.593.656	1.285.672.039

41. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY (continued)

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

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell the security.

Stage 1 and stage 2 loans and advances to customers are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'Over one year' time band. The Stage 3 and POCI loans are classified in the 'Over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits maturing within one year is classified in the 'Over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

42. 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.

The table below presents transactions and balances with the key management personnel and board members, and connected persons as at 31 December 2019 and 31 December 2018:

	2019 €	2018 €
Loans and advances	387.819	298.943
Interest income	8.874	6.589
Deposits	6.568.844	7.175.983
Interest expense	138.217	40.249
Other fees	268.473	45.285

There were no contingent liabilities or commitments towards the Group's key management personnel.

Connected persons include spouses, dependent children, as well as companies in which key management personnel hold, directly or indirectly, at least 20% of the voting rights during a General meeting.

Remuneration of key management personnel of the Group

	2019 €	2018 €
Key management personnel remuneration:		
Salaries and other current benefits and employer's social insurance contributions	1.431.064	773.692
Total key management personnel remuneration – under their executive capacity (i)	1.431.064	773.692
Total key management personnel remuneration – as directors	-	-

(i) Key management personnel consists of the Group's Executive Committee members

42. RELATED PARTY TRANSACTIONS (continued)

Number of key management personnel

	2019	2018
Total number of key management personnel	5	3

Non-executive directors' remuneration

	2019 €	2018 €
Total remuneration of non-executive directors	627.808	391.617

43. ACQUISITION OF USB BANK BUSINESS

43.1 Overview

Through an agreement dated 31 July 2018 entered into between the Bank and USB Bank PLC ('USB'), it was agreed that the Bank would acquire all the assets, liabilities and the banking business of USB, excluding only certain property assets, with a view to consolidate it with its own business. The assets and liabilities of USB mainly relate to loans receivable, customer deposits, cash, debt securities and stock of properties.

The agreement was completed on 18 January 2019 for a total consideration of €40.245.637, following satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited Reference Accounts) by the seller, seller's shareholder approval and successful completion of the capital raise on the part of the Bank.

The transaction was supported by a capital increase of €54m of which: (a) €44m Ordinary Shares 44m (5.648.267 shares €7,79 each), and (b) €10m Preference Shares (1.250.000 shares €8 each) which are eligible as AT1, and which were mainly provided by AstroBank's current shareholders.

The benefits of the acquisition of USB Bank's business focus on:

- strengthening the Group's presence in the market;
- increase in momentum and enhancement of the capacity and potential of the future organic growth;
- the existence of substantial synergies relating to operating costs and revenue.

43.2 Identifiable assets acquired and liabilities assumed

Following the completion of the acquisition, the Bank performed a Purchase Price Allocation (PPA) assessment using the acquisition method of accounting in accordance with IFRS. Therefore, all identifiable assets and liabilities acquired were measured at their fair value at the time of acquisition. These fair values also represent the amounts upon initial consolidation. The difference between the purchase price and the balance of assets and liabilities acquired and measured at fair value was recognised as goodwill in the Statement of Financial Position.

Fair values of the identifiable assets and liabilities acquired

The following overview shows the PPA in accordance with IFRS 3 on the acquisition date 18 January 2019. For the allocation of the acquisition cost, the Group applied the rules of IFRS 3, adjusting the assets and assumed liabilities of the acquired business at their fair values.

43. ACQUISITION OF USB BANK BUSINESS (continued)

43.2 Identifiable assets acquired and liabilities assumed (continued)

Fair values of the identifiable assets and liabilities acquired (continued)

	€
Cash and balances with the Central Bank	185.546.697
Placements with Banks	17.410.796
Loans and advances to customers	302.513.687
Investment in equity shares	1.339.457
Other assets	2.407.718
Debt securities	110.946.748
Stock of property	63.045.190
Property and equipment	1.297.417
Right of use assets	5.617.497
Intangible assets	2.895.349
Total assets on boarded	693.020.556
Deposits by banks	4.776.228
Customer deposits	646.628.534
Lease liability	3.015.472
Other liabilities	6.880.872
Total liabilities on boarded	661.301.106
Net assets	31.719.450
Consideration transferred	40.245.637
Goodwill	8.526.187

The gross contractual balance of the loans and advances acquired at acquisition date amounts to €454m (€151 million were expected to be uncollectible at the acquisition date).

The table below presents key profit or loss components originated from the acquisition of USB Bank business on 18 January 2019 which are included in the consolidated statement of comprehensive income for the reporting period.

	Period from 18 January 2019 to 31 December 2019 €
Interest on loans and advances to customers	12.064.430
Interest on deposits from customers	(1.390.005)
Provision for expected credit loss to cover credit risk on loans and advances to customers	(2.091.626)

Since the date of the transaction for the acquisition of USB Bank business, the Group proceeded with the integration of various processes and departments (i.e. investment operations, human resource department etc.) affecting the profit or loss performance of the acquired business. Consequently, the results of those components as well as their effect on profit or loss is impracticable to be disclosed.

43. ACQUISITION OF USB BANK BUSINESS (continued)

43.2 Identifiable assets acquired and liabilities assumed (continued)

The table below shows the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the business combination that occurred during the period had been as of the beginning of the annual reporting period.

	2019 €
Interest income	52.098.378
Income similar to interest income	2.141.328
Interest expense	(6.084.635)
Net interest income	48.155.071
Fee and commission income	16.844.310
Fee and commission expense	(2.823.085)
Net fee and commission income	14.020.402
Other income	1.848.122
Net gains on financial instrument transactions	7.561.142
Gains arising from the derecognition of financial assets measured at amortised cost	17.035.443
Total net income	88.620.180
Reversal of previous recognised impairment on own used properties	1.830.295
Staff expenses	(35.292.671)
Depreciation and amortisation	(4.867.194)
Operating expenses	(19.235.966)
Profit before impairment losses on financial assets and non-financial assets	31.054.645
Reversal of impairment losses on financial assets	856.621
Impairment losses on non-financial assets	(4.060.164)
Profit before impairment of goodwill	27.851.102
Impairment of goodwill	(8.526.187)
Profit before tax	19.324.915
Income tax charge	(2.481.707)
Profit for the year	16.843.208

43. ACQUISITION OF USB BANK BUSINESS (continued)

43.3 Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation techniques
Placements with Banks	The majority of these balances refer to Nostro accounts held with foreign banks and are repayable on demand. For placements that have a specified maturity date, this is very close to the Transaction Date. For the purposes of estimating the Fair Value of these placements, the credit risk associated with each counterparty bank was assessed, based on the latest available Moody's ratings. The ratings for the institutions under examination range from "A2" to "Aaa" (representing minimum credit risk), with the exception of Alpha Credit Bank which is rated at "Caa2". However, the latter relates to a minor balance. Also, the currency risk associated with placements denominated in foreign currencies has been considered.
Loans and advances to customers	The fair value of the loans and advances to customers was estimated using the Income Approach in accordance with IFRS 13. More specifically, for the exposures assessed collectively, the IFRS 9 risk parameters used by the Bank for ECL provisioning purposes have been used to credit impair the contractual cash flows, which have then been discounted using a market discount factor. For the individually assessed exposures, the expected cash flows have been assessed, impaired where needed to reflect the fair value and then discounted using a market discount factor. The market discount factor used is based on the loan's assumed servicing and funding cost (Cost of Borrowings plus Cost of Capital).
Debt securities	Debt securities consists primarily of Cyprus Government bonds. Observable, quoted market prices were applied for the estimation of the Fair Value of these financial securities. Subsequently, in order to reach the Fair Value (i.e. traded fair value plus accrued interest), the accrued interest has been estimated for each asset class, using the applicable internal rate of return (IRR), as obtained from Bloomberg.
Stock of property	The fair value of Stock of Property was determined using valuation reports obtained from independent professional real estate valuers. The valuations were determined by using transaction prices from similar properties adjusted to reflect the differences between these transactions and the properties under study as well as changes in market conditions.

43. ACQUISITION OF USB BANK BUSINESS (continued)

43.3 Measurement of fair values (continued)

Customer deposits	Customer deposits were assumed to already be recorded at Fair Value. There was no indication for old or dormant deposits that was probable not to be claimed. The Bank has a contractual obligation to depositors at the deposit balance plus accrued interest. In addition, it is assumed that the accrued interest is earned at the same rate as the effective discount rate, therefore, no effect arises from the time value of money on the current balance of the liability.

44. ACQUISITION OF NBG (Cyprus) Ltd

On 26 November 2019 the Bank and National Bank of Greece S.A ('NBG') signed an agreement under which the Bank will acquire the whole of the share capital of NBG (Cyprus) Ltd (post carve-out of problematic loans) for a cash consideration of €38m (as to be adjusted depending on the audited financial statements net asset value of NBG (Cyprus) Ltd).

The agreement is expected to be completed by the end of 2020 subject to the satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited financial statements as at the closing month following conditions precedent satisfaction) by the seller and successful completion of a €40m capital raise on the part of the Bank.

45. AGREEMENT WITH QUALCO HOLDCO LIMITED

The Bank, following an international competitive bidding process, reached an agreement on 31st December 2019, with Qualco Holdco Limited ('Qualco'), for the sale to the latter of 74,9% of Trusset Asset Management Limited, a newly formed company, for the management of the Bank's portfolio of Non Performing Exposures and Real Estate Owned Assets.

The Bank will retain 25,1% of Trusset Asset Management Limited. In the context of purchasing this business from the Bank, Trusset Asset Management Limited will employ a number of employees who have to date been managing the specific portfolio of loans and Real Estate Owned Assets. Further, Trusset Asset Management Limited will purchase from the Bank all related IT licences, processes, products and the collective expertise and processes of the Bank for the management of the Non Performing Exposures and the Real Estate Owned Assets. These portfolios continue to reside on the Bank's balance sheet.

46. EVENTS AFTER THE REPORTING PERIOD

Acquisition of Arab Jordan Investment Bank S.A Cyprus branch

On 28 February 2020 the Bank and Arab Jordan Investment Bank S.A (AJIB) signed an agreement for the sale and purchase of the branch business of AJIB Bank in Cyprus. Under this agreement, the Bank will acquire the banking business and undertaking, assets, collaterals and liabilities of AJIB's branch in Cyprus as well as transfer of all staff under their current terms of employment, excluding only certain assets of AJIB's Cyprus branch.

The completion of the agreement is subject to the satisfaction of conditions precedent including, the written unconditional approvals of the transaction from both the Central Bank of Cyprus and the Central Bank of Jordan, the unconditional approval by the Commission for the Protection of Competition and exchange of certain required information by the two parties.

Following completion of this agreement, AJIB will invest in the common equity of the Bank by subscribing and contributing the full consideration of the branch business sale in a capital increase of the Bank.

46. EVENTS AFTER THE REPORTING PERIOD (continued)

Increase of authorised and issued share capital

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

During the year 2020 and up to the date of approval of these consolidated financial statements, the Bank has issued and allotted 2.387.046 ordinary shares of nominal value €1 each at a share premium of €7,85 each, resulting in an increase in the issued share capital by €2.387.046 and an increase in share premium by €18.738.311. Following the conversion of the redeemable preference shares and the issue of share capital, the share capital and share premium amounted to €23.398.800 and €154.394.747 respectively.

Issuance of bond instrument eligible as TIER 2 capital instrument

On 22 June 2020 the Board of Directors approved the issuance of up to 200 redeemable subordinated Tier 2 bonds of nominal value €100.000 each (total value up to €20.000.000) at 8% annual fixed coupon rate paid quarterly in arrears. On 26 June 2020 and on 30 June 2020 the Bank issued €9.300.000 and €5.300.000 of this instrument.

Development on the Coronavirus disease (COVID-19) outbreak

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak, the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Governments around the world, including the Republic of Cyprus, have required certain companies to limit or even suspend normal business operations and have implemented restrictions on travelling as well as strict quarantine measures.

The negative effects of the outbreak on the economic activity depend heavily on the range of its total extension and the timing of its curbing. The total extent and duration of the coronavirus economic impact are highly uncertain, but it is expected to be temporary.

The Bank monitors closely the developments in the Cypriot, European and Global economic environment assessing the situation as it is evolving adjusting its strategic and business plans for the short/medium term. With respect to the Group's credit portfolio, the Bank will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses as per EBA guidelines and anticipates that this may result in increased organic provisions, mainly driven by increase in Probabilities of Defaults on the performing book as a result of the deterioration in the macroeconomic environment, IFRS 9 Stage deteriorations and losses on the existing non-performing loan portfolio resulting from the prolongation of resolutions.

The Bank is currently not in a position to accurately assess the magnitude of the future impact of the COVID-19 on its operations and financial results as this will largely depend on the impact on its customers and the effectiveness of fiscal and regulatory measures taken to support the economy and mitigate the impact of the virus disease.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

46. EVENTS AFTER THE REPORTING PERIOD (continued)

COVID-19 economic support measures

The ECB and all Central Banks worldwide are focusing their efforts to providing liquidity and reducing pressure on corporate balance sheets as their profitability and turnover is declining. Governments adjust their fiscal policies to offset the falling demand and losses.

The Eurogroup concluded a package of fiscal stimulus in early April for a total of €540 billion. This package includes credit lines from the European Stability Mechanism (ESM) for €240 billion; loan guarantees from the European Investment Bank (EIB) for an additional €200 billion; and labour market support for €100 billion in the so-called SURE initiative (Support to mitigate Unemployment Risks in an Emergency) introduced by the European Commission.

The European Commission has suspended the fiscal and state aid rules paving the way for member states to incur deficits without punitive repercussions. The ECB launched a new wave of net asset purchases and introduced a €750 billion Pandemic Emergency Purchase Programme. The Bank's supervisory authority eased capital requirements providing relief to banks and relaxed the rules around non-performing loans. The Pandemic Emergency Purchase Programme with its flexible framework, paves the way for extensive bond-buying this year ensuring funding conditions remain favourable for countries facing a rapid deterioration in their public finances.

In response to the outbreak of COVID-19, the Cyprus Government implemented certain restrictions, freezing partially or fully the operations of entire business sectors to contain the spread of the virus. Following a successful containment of the virus spread, the Government initiated the gradual lifting of measures in May 2020, allowing businesses to commence operations aiming towards normalising economic activity. The biggest challenge remains the comeback of the Tourist and Leisure industry, which is heavily dependent on tourist arrivals from abroad. As per the Cyprus Ministry of Finance, during January-March 2020, tourist arrivals decreased at a rate of 31% compared to January-March 2019.

To mitigate the disruption and the costs of the outbreak of COVID-19 and of the measures to contain it, the Government has introduced several measures and policies. Measures introduced include amongst other income support schemes for companies to avoid employee layoffs, subsidisation of salaries for affected business, suspension of VAT payments, delay in planned increases for National Health system constitutions, tax incentives for temporary discounts on rentals and subsidisation of loans to businesses and individuals.

In addition, the Cyprus Parliament voted on 29 March 2020 a Law for the suspension of loan repayments for interest and principal for the nine months until the end of 2020 for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. In response to the moratorium, the Association of Cyprus Banks also announced the non-capitalisation of interest for the period during which the moratorium is in effect. Also, banks suspended foreclosure procedures for a period of three months until 31 August 2020.

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Independent Auditor's Report

To the Members of AstroBank Public Company Limited

Report on the Audit of the Consolidated Financial Statements Opinion

We have audited the consolidated financial statements of AstroBank Public Company Limited (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 11 to 124 and comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

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

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

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

Ernst & Young Cyprus Ltd is a member firm of Ernst & Young Global Ltd.
Ernst & Young Cyprus Ltd is a limited liability company incorporated in Cyprus with registration number HE 222520. A list of the directors' names is available at the company's registered office, Jean Nouvel Tower, 6 Stasinou Avenue, 1060 Nicosia, Cyprus.
Offices: Nicosia, Limassol

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Key audit matter	How our audit addressed the key audit matter
Impairment on loans and advances to customers As at 31 December 2019, gross loans and advances to customers amounted to €1.158.072.576 and the related impairment amounted to €160.181.919. The relevant accounting policy is presented in the accounting policies and further analysed in Note 2 to the consolidated financial statements. Management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the ECL for loans and advances to customers. As loans and advances comprise a large portion of the Group's assets, and due to the significance of judgement used in estimating the expected credit losses, the impairment on loans and other advances is considered to be a key audit matter. Refer to Note 14, 22 and 37 to the consolidated financial statements for the relevant disclosures.	The key judgments and estimates in respect of the timing and measurement of ECL which we focused on include: • The allocation of loans and advances to Stages 1, 2 or 3 using criteria in accordance with the standard; • The interpretations and assumptions used in the Company's methodology for calculating ECL; • The inputs, assumptions and probability weightings assigned to multiple economic scenarios; • The identification and measurement of individually assessed provisions; and • The accuracy and adequacy of the disclosures in the financial statements. In obtaining sufficient appropriate audit evidence we: • 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 processes relevant to the calculation of ECL. • Inspected key technical papers such as the ECL policy and engaged our internal specialists to read the Company's methodology, used for the calculation of impairment, and assessed whether is in accordance with IFRS 9. • For a sample of loans and advances to customers, we assessed whether the inputs used in the ECL calculation such as liquidation haircuts and liquidation date are determined in accordance with the Company's policy and methodology. • Performed analytical procedures on the ECL recognised such as trend analysis on PDs and LGDs and sensitivity analysis to assess whether the ECL recognised by the Company is reasonable. • Obtained and read the minutes of the Provisioning Committee meetings where the inputs, assumptions and ECL adequacy were

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	discussed and approved by the Provisioning Committee. • 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. • For a sample of the loan reviews performed by the Company, we tested the measurement of the provisions by assessing the reasonableness of the main assumptions and the accuracy of key inputs used such us collateral value, liquidation date and estimated cash flows. • Engaged our internal specialists to assess whether the coding of the Company's ECL tool used to calculate the collective impairment is in line with the Company's methodology • We have selected a sample of collaterals and engaged an external property valuation specialist to assess the appropriateness of the collateral valuation used by the Company in the ECL calculation • Tested the arithmetical accuracy of the ECL calculation for 31 December 2019. • Assessed the disclosures made against the relevant accounting standards.
Going Concern As required by IFRSs and as disclosed in the Statement of Directors' Responsibilities, Directors are required to prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. The Directors have determined that the going concern principle is appropriate and that the Group is taking all necessary measures to maintain its viability and the development of its business into the future. As part of their assessment, the Directors have considered	Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient appropriate audit evidence we: • Obtained and read correspondence with the regulator including correspondence with regards to regulatory capital and liquidity requirements of the Group. • Inspected the Group's Business plan (including management's plans for future actions) and assessed the main inputs and assumptions used such as the impact of COVID 19 on Group's profitability, major transactions expected to be completed in the next 12 months and amount of

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compliance with regulatory measures and the uncertainty in executing the required steps in the Business Plan. The Directors have formulated actions as deemed appropriate to ensure the Group is a going concern into the future. In light of the judgment and uncertainties involved in the delivery of the Business Plan and the actions formulated therein, this is considered a key audit matter. Refer to Management Report and Note 3 to the consolidated financial statements.	new lending expected to be provided to customers. • Performed sensitivity analysis on the main assumptions and management's plans for future actions to assess the Group's going concern status. • Obtained the regulatory capital projections of the Group for the next 12 months, which take into consideration the Business plan and considered additional possible scenarios. • Assessed the reliability of the underlying data used to prepare the projections. • Assessed the disclosures made by the Directors in the consolidated financial statements in relation to going concern for adequacy.
Acquisition of USB Bank Plc banking business On 18 January 2019 the Company acquired certain assets and assumed liabilities from USB Bank Plc. The transaction is accounted for as a business combination under IFRS 3 as the acquired assets and liabilities meet the definition of business. The fair value of the net assets acquired was €31.719.450 and goodwill of €8.526.187 was recognized in accordance with IFRS 3 which was impaired in full at the reporting year end. The accounting treatment for this transaction is considered complex due to the significant judgements and estimates that are required to determine the measurement of the fair value of the identifiable assets acquired and liabilities assumed. As the acquired assets and liabilities assumed comprise a large portion of the Group's net assets and due to the significance of judgement used in	In obtaining sufficient appropriate audit evidence we: • Performed walkthroughs on the processes relevant to the fair valuation of the acquired assets and liabilities assumed from USB Bank Plc and the determination of any resulting goodwill, to identify the key controls governing the processes. • Tested the design and operating effectiveness of key controls across the processes relevant to the fair valuation of the acquired assets and liabilities assumed. • Engaged our internal specialists to assess the methodology and assumptions used by the Company to calculate the fair valuation of the acquired assets and liabilities assumed. • For a sample of valuation reports prepared by external independent valuers that were used for the fair valuation of the stock of properties at the acquisition date, we assessed the appropriateness of the methodologies and the reasonableness of the assumptions used. • Tested the arithmetical accuracy of the Company's calculation in relation to Goodwill. • Assessed the reasonableness of the subsequent impairment of goodwill considering banking market factors and developments at the reporting year end.

measuring their fair values, we consider this to be a key audit matter. Refer to Note 43 to the consolidated financial statements.	• Performed data integrity tests for a sample of data used in the fair valuation of the acquired assets and liabilities assumed. • Assessed the adequacy of the disclosures made in the consolidated financial statements.

Reporting on other information

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

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

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

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

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

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

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

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

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

consolidated financial statements.

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements

of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company on 12 June 2018 by the Company's shareholders. Our appointment has been renewed annually by shareholder resolution since then representing a total period of uninterrupted engagement appointment of 2 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 June 2020 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

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

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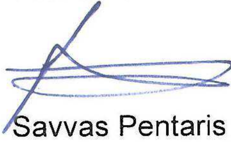
Other Matters

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

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



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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
Nicosia
9 July 2020