The Cyprus Development Bank Group

Annual Report and Financial Statements

For the year ended 31 December 2020

CONTENTS

DIRECTORS AND ADVISERS

Management Body

Christodoulos Patsalides, Chairman, Non-Executive (appointed on 10.03.2020)

Neoclis Nicolaou, Vice Chairman, Non-Executive (resigned on 19.02.2021)

George Loizou, Non-Executive (Acting Chairman 16.11.2018-10.03.2020)

Andreas Loizou, Non-Executive (resigned on 31.12.2020)

Menelaos Shiacolas, Non-Executive (resigned on 31.12.2020)

George Pavlides, Non-Executive

Wahid Pierre Chammas, Non-Executive

Costas Poullis, Non-Executive (resigned on 31.05.2020)

Avgoustinos Papathomas, Non-Executive

Christodoulos Plastiras, Non-Executive

Costas Argyrides, Executive (resigned on 01.12.2020)

Stella Avraam, Executive

Chief Executive Officer

Costas Argyrides (resigned on 01.12.2020)

Acting Chief Executive Officer

Stella Avraam (appointed on 01.12.2020)

Secretary

Maria Agathokleous

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

KPMG Limited

14 Esperidon Street

1087 Nicosia

Registered office

50, Arc. Makarios III Avenue

Alpha House

1065 Nicosia

MANAGEMENT REPORT

The Management Body of The Cyprus Development Bank Public Company Limited (the "Bank") presents to the members its annual report together with the audited financial statements of the Bank and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiary companies, which remained unchanged from last year, are the provision of banking and financial services.

All subsidiary companies are set out in notes 20 and 21 to the financial statements.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 40.

The Group loss before tax for the year ended 31 December 2020 amounted to €2,7 million compared to a profit of €3,1 million for the year ended 31 December 2019.

Income Statement Analysis

Net interest income

The Group's net interest income for the year ended 31 December 2020 was €9,8 million, down by 8% compared to €10,7 million for the year ended 31 December 2019, mainly due to continued pressure on lending yields as well as lower yields on balances with banks and debt securities. The decrease in interest income was partly offset by the positive impact from the ongoing reductions in the average cost of deposits which dropped by 64% from €2,2 million in 2019 to €0,8 million in 2020.

The Group's average interest earning assets for 2020 amounted to €541 million (2019: €506 million), an increase of 7% compared to last year, while net interest margin for 2020 amounted to 1,82% (2019: 2,12%).

Non-interest income

Non-interest income for 2020 amounted to €6,0 million compared to €6,5 million in 2019, down by 7% compared to 2019, comprising net fee and commission income of €3,7 million (2019: €3,2 million), net foreign exchange gains of €0,5 million (2019: €0,8 million), and net gains on disposal of stock of properties €1,8 million (2019: €1,5 million). The yearly decrease of 7% (€0,5 million) is mainly attributable to a profit of €1,0 million from the disposal of debt securities recorded in 2019 with no corresponding income in 2020.

Net fee and commission income for 2020 amounted to €3,7 million, compared to €3,2 million for 2019, an increase of 13% despite the low trading activity during the first half of 2020 as a result of the COVID-19 lockdown.

Net foreign exchange gains for 2020 amounted to €0,5 million, compared to €0,8 million for 2019, reflecting the COVID-19 lockdown during the first half of 2020.

Other income for 2020 amounted to €2,0 million, comprising mainly of profit on disposal of stock of properties €1,8 million (2019: €1,5 million).

Total income for 2020 amounted to €15,9 million, compared to €17,2 million for 2019, down by 8%.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Expenses

Total expenses (adjusted for termination benefits to staff), for the year ended 31 December 2020 were €12,0 million compared to €11,6 million for the year ended 31 December 2019, an increase of 3%, 62% of which related to staff costs (€7,5 million), 29% to other operating expenses (€3,5 million) and 9% (€1,0 million) to depreciation and amortisations. The yearly increase is mainly being driven by higher staff costs.

Group staff costs (adjusted for termination benefits to staff), for 2020 amounted to €7,5 million compared to €7,0 million for 2019, recording an increase of 7% and accounted for 62% of the Group's total expenses. The main drivers of the increase were the annual increments to staff as per collective agreements, and the increased average headcount during the year.

The Group's total other operating expenses for 2020 amounted to €3,5 million, recording a decrease of 3% compared to €3,7 million for 2019, mainly due to lower consultancy and legal fees.

The Group's cost to income ratio for 2020 was 78,0% compared to 68,5% for 2019.

Provisions for impairment

The Group's total provisions for impairments for 2020 amounted to €6,2 million comprising mainly of impairments on loans and advances of €5,3 million, impairments on financial guarantees and commitments €0,2 million and valuation adjustments in the value of stock of properties of €0,6 million, recording a significant increase of 164% compared to impairments of €2,3 million for 2019.

The increased impairment losses were mainly driven by the elevated impairment losses on the loan portfolio as a result of the impact of COVID 19 on the forward looking macroeconomic outlook which has led to changes in the provisioning parameters applied.

Statement of Financial Position Analysis

Loans and advances

The Group's gross loans and advances as at 31 December 2020 amounted to €289 million increasing by 3% compared to €281 million as at 31 December 2019.

During the year, as part of the measures to support borrowers affected by COVID-19, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. The gross carrying amount of the loans and advances subject to moratorium on loan repayments amounted to €139 million as at 31 December 2020 comprising of gross loans to private individuals of €15 million and gross loans to businesses of €124 million, representing 48% of total gross loans. The Bank is continuously monitoring the quality of the loan portfolio especially in 2021 after the expiration of the loan moratorium.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Loans and advances (continued)

The Group continued its efforts towards improving the quality of the loan portfolio. At 31 December 2020 NPEs amounted to €110 million an increase of 3% compared to €107 million at 31 December 2019. During the year NPE decreases amounted to €8,7 million made up of collections and cures of €3,7 million and DFAS and foreclosures of €5,0 million while increases amounted to €11,7 million made up of€3,4 million new defaults and €8,3 million interest accruals. The NPEs provision coverage ratio stood at 56% at 31 December 2020, compared to 50% at 31 December 2019.

Effective management of the NPEs portfolio and monetization of the REO portfolio remains a top priority for the Group. The Bank has identified and has been implementing a number of suitable organic and non organic solutions that will allow it to reduce its NPEs to sustainable levels in the medium term. The Group is currently evaluating the option to dispose part of its NPE Portfolio and at the same time has accelerated the process for realisation of high value NPEs and REOs. The implementation of these actions is carefully monitored. At the same time, the Bank as a response to COVID 19 and with the aim to arrest any potential asset deterioration has introduced enhanced monitoring processes for managing early arrears.

Deposits

The Group deposits amounted to €524 million as at 31 December 2020, an increase of 6% compared to €496 million at 31 December 2019. Customer deposits accounted for 90% of total assets at 31 December 2020 and net loans to deposit ratio stood at 43% at 31 December 2020 (31 December 2019: 46%).

Liquid assets

The Group's carrying value of liquid assets amounted to €329 million at 31 December 2020 representing 57% of the total assets of the Group (31 December 2019: €298 million). Liquid assets comprise of cash and balances with Central Bank, placements with other banks and investments in debt securities.

Cash, balances with Central Bank and other banks amounted to €247 million at 31 December 2020, an increase of 22% compared to €202 million at 31 December 2019.

Investments in debt securities amounted to €82 million as at 31 December 2020 compared to €96 million at 31 December 2019. The Group's investments at 31 December 2020 comprised of sovereign debt securities.

MANAGEMENT REPORT (continued)

GOING CONCERN

The Directors 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 financial statements. The conditions that existed during 2020, the developments up to the date of approval of these financial statements and Management’s projections have been considered by the Directors in the going concern assessment and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

The Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the financial performance of the Group, the risks emanating from the economic environment and the risks that arise to the economy from the conditions emanating from the COVID 19 pandemic, and consider that the going concern principle is appropriate.

The going concern assessment is presented in note 2.1 to the financial statements.

DIVIDEND

The Management Body does not recommend the payment of dividend.

RISK MANAGEMENT

As a financial organisation the Group is exposed to risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Group monitors and manages these risks through the Risk Management unit, the Bank's ALCO committee, the Management Body's Risk Management Committee and the Management Body. Description of the Group's risk management framework is set out in note 35 to the financial statements.

SHARE CAPITAL

There were no changes in the share capital of the Company during the year ended 31 December 2020.

SHAREHOLDERS

The shareholding structure as at 31 December 2020 is presented in note 38 to the financial statements.

CAPITAL MANAGEMENT

At 31 December 2020 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (31 December 2019: 12,20%) and an overall capital adequacy ratio of 15,70% (31 December 2019: 15,70%).

The Group's CET 1 and overall capital adequacy ratio as at 31 December 2020 stood at 14,81% and 16,52% respectively, being above the minimum regulatory requirements.

The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimize capital usage and maintain ratios above minimum requirements.

Details on capital management are shown in note 35.5 to the financial statements.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES

2020 was a year of heightened uncertainty which lead to reduction of risk appetite of investors, lower economic activity and new credit formation. The Group while it continued the implementation of its strategic objectives focused during the year in supporting its customers and colleagues during the COVID-19 crisis as well as in taking measures to safeguard its financial position from new and potentially hidden risks.

The Group revisited its plans for 2020, proactively focusing on providing the necessary financial support to its clients. At the same time it implemented a business continuity plan specific to the pandemic crisis which allowed it to take all the necessary health and safety measures with no disruption to customer service and daily operations. The Management monitored closely the situation and responded proactively; as a result more than 90% of employees were able to work remotely in an effective and efficient control environment during the lockdowns while branches continued to service customers safely and seamlessly.

The Group engaged actively with its customers, especially those operating in more vulnerable to the pandemic sectors of the economy, to identify and assess their needs and provide the required support, including extending the payment moratorium which was approved by the Parliament to all eligible clients that were evidently affected by the Pandemic. Clients' performance since the end of the payment moratorium on 31 December 2020 is encouraging. The Group remains committed to continue to provide support to its clients. Close monitoring of the credit quality of the loan portfolio continues and customers with early arrears are identified and offered solutions.

The Group also closely monitors developments in sectors more heavily affected by the Pandemic such as the tourism and trade sectors as well as the health situation and progress in vaccination programs of jurisdictions with higher contribution to international tourism arrivals.

The Group's medium-term strategic objectives remain focused on further strengthening its balance sheet, improving the quality and efficiency of its asset, further strengthening its capital position and increasing its operating profitability through the prudent increase of its loan portfolio, as well as the diversification of income streams by optimising its fee income from banking related activities.

The Bank is specialised in the area of SME/Corporate Lending and aims to exploit its long history, knowledge and expertise in this market to carefully expand its good client base and grow its loan portfolio through high quality new lending and careful underwriting, by providing products that are suitable and satisfy the current needs of its clientele. In the meantime, following the outbreak of COVID-19, focus remains on supporting the Bank's clientele to overcome the crisis. For 2020, new lending was limited, primarily due to the uncertainties created by the pandemic, lower economic activity and focus on supporting affected clients. Opportunities for new good quality lending are expected to increase as economic activity returns to normality. At the same time, the group aims to enhance the efficiency of its assets and maintain an appropriate return on its loan portfolio.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

The European Union is at the vanguard of ESG measures and the European banking sector is expected to facilitate and be a significant contributor towards the success of these initiatives. The European Union has also made available to member states the Recovery and Resilience Facility, which is the key instrument at the heart of NextGenerationEU and aims to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The Facility is closely aligned with the Commission’s priorities to ensure in the long-term a sustainable and inclusive recovery that promotes the green and digital transitions. Cyprus is expected to benefit €1,2 billion from this facility and has recently prepared and submitted its recovery and resilience plan that should be implemented by 2026. The plan includes measure to address the challenges and reap the benefits of the green and digital transitions such as reforms, new policies and support investments towards a greener and more sustainable economic recovery. The bank aims to identify and support these initiatives by making available to its clientele suitable sustainable finance products and services that are environmentally friendly and promote investments in energy saving.

Effective management of the NPEs portfolio and monetization of the REO portfolio remains a top priority for the Group. The Bank has identified and has been implementing a number of suitable organic and non-organic solutions that will allow it to reduce its NPEs to sustainable levels in the medium term. The Group has initiated a process for the disposal of part of its NPE Portfolio and at the same time has accelerated the process for realisation of high value NPEs and REOs. The implementation of these actions is carefully monitored. At the same time, the Bank as a response to COVID-19 and with the aim to arrest any potential asset deterioration has introduced enhanced monitoring processes for managing early arrears.

The Group is currently evaluating opportunities for the issuance of a Tier 2 instrument as part of its capital and funding strategy which will further enhance its capital position, support balance sheet de-risking, contribute towards meeting its MREL Targets as well as support its business strategy.

The Group continues to manage its deposit base prudently in order to maintain healthy liquidity ratios and at the same time manage the cost of funding taking into advantage the confidence of the market in the sector. During the last years the group has experienced a significant reduction in the cost of deposits while it was the first to introduce liquidity fees for certain groups of clients in 2019. The Bank has also recently proceeded with additional measures to further reduce its funding costs.

The Group also focuses on the provision of asset management and investment and advisory services, through its subsidiary company Global Capital Securities and Financial Services Ltd which provides also related activities to AIFs.

The Group continues to invest in upgrading its technologies and systems that support the implementation of its business strategy and its digital transformation objectives. Digital transformation initiatives have been accelerated as a result of COVID 19. Main actions include upgrading of the core banking system, introduction of peripheral systems to enhance automation of processes, streamlining of processes to improve efficiency and the enhancement of digital channels as well as promote increase of their usage (which has increased significantly as a result of COVID-19).

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

Emphasis is also placed on ensuring the effectiveness of the Bank's risk management and compliance frameworks through prudent risk policies and measures. At the same time the Group aims to enhance its organisational resilience supported by an effective corporate governance aligned with the Group's priorities.

BRANCHES

The Bank carries out its activities through its head office and two business centres, one in Nicosia and one in Limassol.

MANAGEMENT BODY

The names of the members of the Management Body (MB) as at the date of this report (alternatively referred to as "Directors" and "Board of Directors" in the financial statements) are set out on page 3.

Directors Neoclis Nicolaou, George Loizou, Andreas Loizou, Menelaos Shiacolas, George Pavlides, Wahid Pierre Chammas, Avgoustinos Papathomas, Christodoulos Plastiras and Stella Avraam served on the Management Body throughout the year 2020. Mr. Christodoulos Patsalides, was appointed member and Chairman of the Board on 10 March 2020.

Mr. Costas Poullis resigned from the Management Body on 31 May 2020 and Mr. Costas Argyrides resigned on 1 December 2020. Messrs. Andreas Loizou and Menelaos Shiacolas resigned on 31 December 2020 and Mr. Neoclis Nicolaou resigned on 19 February 2021 having completed the regulatory maximum Board member tenor of 12 years.

The members of the Management Body express their thanks to Messrs. Costas Poullis, Costas Argyrides, Andreas Loizou, Menelaos Shiacolas and Neoclis Nicolaou for their valuable contribution.

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2021, one third of the directors serving (those with longest service since their last appointment) will be due for retirement and being eligible, will offer themselves for re-election.

CORPORATE GOVERNANCE REPORT

1. Introduction

Good Corporate Governance safeguards an organization's long-term viability and is a key factor for the achievement of shareholder value maximization. An effective Corporate Governance framework facilitates communication between the key stakeholders of the organization and ensures strategic objectives are achieved.

Another key objective of the Corporate Governance Framework is to ensure compliance with the applicable legal and regulatory requirements. The Group is subject to the Directive on Governance and Management Arrangements of the Central Bank of Cyprus (the 'CBC Governance Directive').

Details on how the Group has applied the provisions of the CBC Corporate Governance Directive are provided in this report.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

1. Introduction (continued)

The Board aims to adopt a robust corporate governance framework with clearly defined lines of responsibility which promote segregation of duties and limit conflicts of interest as well as effective processes to identify, manage, monitor, control and report the risks to which the Group is or might be exposed to. In this respect, the Group has adopted the three lines of defence framework for risk management and risk oversight.

The Board has delegated authority to committees of the Board to support its oversight of risks and controls. The Committees are the Audit Committee ('the AC'), the Risk Committee ('the RC'), the Nomination and Remunerations Committee ('the NRC') and the Credit Committee ('the CC'). Details of these Committees are provided in the sections to follow. The Chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meeting of the Board and minutes of these meetings are tabled to the Board as soon as possible for noting and/ or discussion, as necessary. The Committees terms of reference are available on the Bank's website www.cdb.com.cy.

The Corporate Governance Framework is reviewed by the Board on an annual basis.

2. Board of Directors

The authorities of the members of the Board derive from the Articles of Association of the Bank as well as the prevailing Companies and Banking Laws and the Directives of the Central Bank of Cyprus (CBC). The role of the Board and its committees is described in the Policies and Procedures of the Board that are annually reviewed to include all responsibilities that emanate from the regulatory framework and best practices.

The Board is collectively responsible for ensuring that the management maintains an appropriate system of internal controls which provides assurance for effective operations, internal controls and compliance with rules and regulations. It has the overall responsibility for the Group's long-term success; It approves and oversees the implementation of the Group's strategy and sets the strategic objective and the risk appetite to support the strategy implementation.

2.1. The role of the Board of Directors

The Board's role is to provide effective leadership to the Group and promote the Group's vision, values, culture and behavior, within a framework of prudent and effective controls, which enable risk to be identified, assessed and managed. The Board has the primary responsibility for setting the strategy of the Group and ensuring that the necessary human and financial resources are in place to meet the strategic and operational objectives. It has an overall responsibility for the Group and approves and oversees the implementation of the Group's strategic objectives, risk strategy and internal governance.

The Board has the overall responsibility for:

- Setting and overseeing the values and standards of the Group;
- Setting and overseeing the strategy of the Group;
- Setting and overseeing the business model of the Group;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.1. The role of the Board of Directors (continued)

- Maintaining an effective system of controls to ensure the effective operation of the Group and compliance with applicable laws and regulations;
- Setting the framework and policy for effective governance and oversight of the Group;
- Monitoring business performance against strategic objectives, risk appetite and expected standards.

The Board is responsible for ensuring that the Board and Committees composition and organization are appropriate for the delivery of value to shareholders and key stakeholders in a sustainable manner.

The Board is a decision-making body for all matters of importance because of their strategic, financial or reputational implications or consequences. Specific decisions and matters are reserved for approval by the Board. Such matters include, inter alia, setting of the Group's strategy and targets, approval of the annual budget, approval of capital and funding plans, decisions on important matters and material transactions, transactions with Board Members and Senior Executives or Shareholders, the appointment, replacement, transfer and removal from office of the heads of internal control functions, matters concerning the composition and organization of the Board and Board Committees, governance matters. A formal schedule of matters reserved for approval by the Board ensures that control of these key decisions is maintained by the Board. The schedule is reviewed annually and updated as necessary.

In addition, the Board is responsible for determining the nature and extent of the principal risks the Group is willing to assume in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight framework across the Group.

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects, including in relation to the annual financial statements, other reports and reports required by regulators and by law.

Leadership

There is a clear separation between the role of the Chairman who is responsible for the leadership and effectiveness of the Board and the Chief Executive Officer ('CEO') who is responsible for the running of the Company's business. The clear division of responsibility is documented in the policies and procedures of the Board which have been approved by the Board. The day to day operations of the Group have been delegated to management.

Role of the Chairperson

The Chairman ensures the effective functioning of the Board on all aspects of its role including:

- Providing leadership to the Board;
- Ensuring that the Board determines the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.1. The role of the Board of Directors (continued)

- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making;
- Encouraging the active participation of members of the Board;
- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision making and voting on any matter on which they may have a conflict of interest;
- Maintaining effective communication with supervisory authorities, shareholders and other key stakeholders;
- Ensuring that adequate time is allowed for discussion of complex or contentious or strategic issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion;
- Promoting high standards of corporate governance.

Role of the CEO

The CEO is responsible:

- To develop and present to the Board the strategy of the Group;
- To execute the approved strategy;
- To lead the senior management team in the day-to-day running of the business;
- Accept accountability for the performance of the management team and the delivery of the strategy agreed by the Board;
- Set an example to the Group’s employees and communicate to them the expectations of the Board in relation to the Group’s culture, values and behaviour;
- To make decisions on matters affecting the operations, performance and strategy of the Group’s business with the exception of those matters reserved for the Board.

2.1.1. Information Support

The Board meets on a regular basis and has a formal schedule of matters for consideration which is reviewed annually. The Board receives regular reports and presentations from CEO and other senior management on strategy and developments in the operations of the Group. The Board is regularly provided with reports on the Group’s risk exposure, risk appetite, top and emerging risks, risk management, credit exposures and the Group’s loan portfolio, NPE management, asset and liability management, liquidity, financial position as well as compliance and reputational issues.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.1. The role of the Board of Directors (continued)

2.1.1. Information Support (continued)

Under the supervision of the Chairman of the Board, the Company Secretary's responsibilities include facilitating the flow of information with the Board and its Committees, as well as between senior management and non-executive directors and between heads of control functions and non-executive directors.

All members of the Board have access to the advice and services of the Company Secretary, who can provide relevant information related to Board procedures and relevant regulatory requirements. The directors also have access to the advice of the Group's external legal advisors and to independent professional advice at the Group's expense if and when required. Committees of the Board have similar access. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

Occasionally, the Board holds focused sessions with key business line managers and heads of control functions to provide members with a deeper insight into key areas of strategic focus, enable better quality debate and enhance knowledge.

2.2. Composition of the Management Body

As at 31 December 2020 the Board comprised of eight (8) Directors: the Chairman who is independent, one executive Director and six non-executive Directors. In line with the provisions of the CBC Governance directive five of the non-executive directors are independent. The names and brief biographical details including each Director's background, experience and status are set out in section 4 below.

On 10 March, 2020 Mr. Christodoulos Patsalides joined the Board and was appointed as Chairman replacing Mr. George Loizou who continues as a non-executive independent Member.

The Board has nominated five (5) new Directors, which are pending CBC approval.

The composition of the Board should be appropriate in terms of structure, size, tenure, skills, knowledge, experience and diversity (e.g. age, gender, etc) and the Board and its Committees should comprise of Directors who have a broad perception of the Group's activities and the risks associated with them, in order to effectively steer the Group. We believe that a Board with the right balance of skills, experience and diversity is critical to the sustainable delivery of value to our shareholders and other key stakeholders and we are confident that the recent changes to the composition of the Board will be supportive of this objective. The new appointments complement the experience and market insight of existing Members and bring additional expertise in the areas of Corporate Banking, Corporate Finance, Financial Markets and Corporate Governance.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

The Board through its annual performance evaluation process reviews its structure, size and composition (including collective skills, knowledge, experience, independence and diversity). The process is executed by the Nominations and Remuneration Committee which makes recommendations to the Board as required.

The Members of the Board are required to confirm, on an annual basis, any changes in their circumstances in respect of their compliance with the CBC Suitability Directive of the members of the management body and Key Function Holders.

2.2.1. Meetings of the Management Body

The Board with the support of the Company Secretary prepares an annual Schedule of Board meetings. All members have the opportunity to prove input in the formulation of the Schedule. The process aims to ensure that sufficient time is allocated to important matters and that regulatory obligation are addressed in a timely manner. Matters may be added to agendas in response to external events, non-executive directors' requests and regulatory initiatives, etc.

Board meetings have certain standing items such as a report from the Chief Financial Officer on Group's performance and updates from other senior management members.

During 2020 the Board held 16 meetings. Details on the number of meetings of the Board and its committees and attendance of individual Directors are set out below.

	MB	Risk	Audit	NRC	Credit
Total Meetings - 2020	**16**	**11**	**12**	**11**	**25**
Christodoulos Patsalides	14	-	-	6	-
Neoclis Nicolaou	16	-	-	10	25
Wahid Chammas	16	-	-	-	-
Andreas Loizou	14	-	12	-	21
George Loizou	16	9	-	11	25
George Pavlides	14	10	7	-	-
Avgoustinos Papathomas	16	-	12	10	23
Christodoulos Plastiras	16	10	12	-	24
Menelaos Shiacolas	16	-	-	7	-
Stella Avraam	16	-	-	-	-

New appointments

Mr. Christodoulos Patsalides appointed on 10 March 2020.

Resignations

Costas Poullis resigned on 31 May 2020.

Costas Argyrides resigned on 1 December 2020.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.1. Meetings of the Management Body (continued)

Andreas Loizou resigned on 31 December 2020.

Menelaos Shiacolas resigned on 31 December 2020.

Neoclis Nicolaou resigned on 19 February 2021.

Resignations/Appointments from Committees

George Pavlides resigned from Audit Committee on 9 July 2020 and was reappointed on 1 January 2021.

Christodoulos Patsalides appointed on NR Committee on 10 July 2020.

In the evaluation of the structure and composition of Committees cross-committee membership is considered important factor. Common committee membership facilitates effective governance across all finance and risk issues. In addition, agendas can be aligned and overlap of responsibilities can be avoided. The above table shows the number of cross-memberships of Non-Executive Directors across Board Committees as at 31 December 2020.

Agendas and papers are circulated to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them enough time to review the relevant information and to enable them to fully discharge their duties. The Board makes full use of technology such as teleconferencing and a Board portal. This provides greater flexibility, security and efficiency in Board paper distribution and meeting arrangements.

Minutes and matters arising from the meetings are produced and circulated to the directors for review and feedback. A formal procedure has been adopted for following up matters arising through relevant updates in frequent intervals.

Agendas and papers are circulated to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them enough time to review the relevant information and to enable them to fully discharge their duties.

2.2.2. Conflicts of interest

The Group's conflict of interest policy which also applies to Directors, sets out how conflicts of interest are to be identified, reported and managed to ensure that the Directors as well as all officers and employees of the Group, act at all times in the best interests of the Group. The policy also sets out their duty to avoid, manage and disclose actual, potential or perceived conflicts of interest. The policy is reviewed on a regular basis and is communicated throughout the Group.

The Board policies and procedures specify requirements specifically relating to directors' conflicts of interest, and sets out how these are to be identified, reported and managed to ensure that the directors act at all times in the best interests of the Company.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.2. Conflicts of interest (continued)

A conflicts of interest declaration is signed by all directors on an annual basis.

Related party transactions are disclosed in note 39 to the financial statements.

2.2.3. Time commitment

The Group expects non-executive Directors to devote sufficient time to discharge their duties. Time devoted to the Group can vary considerably depending on Directors serving on Board committees. The Board's policies and procedures define the time commitment expectations for each role. Certain non-executive directors such as the Vice Chairman, the SID and committee chairmen are required to allocate additional time in fulfilling those roles.

The NRC considers whether the potential Director is able to devote the requisite time and attention to the Group's affairs prior to the Board's approval of the individual's appointment. The NRC considers in its assessment the directors' other professional obligations including other executive and non-executive directorships.

The directors hold positions on the management bodies of other companies as noted in their biographical details included in section 4 of this report. Such participation does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company. Additional external appointments require the prior approval of the Board. It is estimated that in 2020, each non-executive director spent at least 60 days on board-related duties.

2.3. Board Balance and Independence

The CBC Governance Directive defines the minimum requirements for Board Members independence so that no individual or small group of individuals can dominate the Board's decision-taking.

The NRC and the Board consider the independence status of each Director on appointment. In addition, the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence remains appropriate.

In 2020 the Board considered the principles relating to independence contained in the CBC Suitability Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 4 of this report.

The Board considers that each non-executive Director brings independent challenge and judgement to the workings of the Board, through their character, objectivity and integrity.

A relevant confirmation of independence based on the independence criteria defined in the CBC Suitability Directive is provided annually by each of the independent directors.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.1. Appointments to the Board

The Board recognizes the need to identify the best qualified and available people to serve on the Board. It is responsible for the appointment of Directors. All appointments are made on merit against objective criteria (including skills and experience) with due regard for the benefits of diversity on the Board.

In assessing potential candidates, the Board considers in addition to the skills and experience required for the role, the results of the collective suitability assessment, the ability of the candidate to devote sufficient time to the role, independence as well as possible conflicts of interest. The assessment process and the due diligence process includes external checks of various publicly available sources.

At the time of appointment non-executive Directors are provided with a letter setting out the terms of his/her appointment, including the specific role requirements and obligations as well as the time commitment expected.

Non-Executive Directors are not employees of the Group and do not participate in the daily management of the Group. They are responsible for monitoring executive activity and contributing to the development of strategy. Their role is to constructively challenge the Group's existing strategy, contribute to the development of new strategies, oversee and challenge the performance of senior management in meeting agreed targets and objectives as well as to satisfy themselves on the integrity of financial information and that the systems of internal controls, compliance and risk management are robust.

Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings, training sessions and briefings and preparation time for meetings. In addition, non-executive Directors are normally required to sit on at least one committee of the Board, which involves the commitment of additional time.

2.3.2. Directors inductions and ongoing development

Induction programs, with particular emphasis on risk management and internal control systems are arranged for newly appointed Directors. The programs also include a series of meetings with senior executives and other Directors to enable new Directors to familiarize themselves with the business, management and governance structure including the function of the Board and the role of the committees, key risk of the Group and the risk management Framework.

In addition, the Company Secretary is responsible, under the supervision of the Chairman, to develop training programs based on the Director's individual needs. Following appointment, each Director receives a relevant package and undergoes an induction program.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.2. Directors inductions and ongoing development (continued)

Focused training of the Board is also arranged where information is provided to ensure that Directors receive adequate insight into a particular area through presentations by Group Business Directors and briefings with senior management. Dedicated training sessions also take place on particular issues usually identified by the Directors themselves or recommended by the Company Secretary.

All the members of the Board are provided on appointment with an information pack which includes, among others, key policies as well as key legislation, directives and regulations and the Company's Articles of Association. An online database with training material on this aspect has been set-up and is available to all directors.

During 2020, training materials and training sessions were provided to directors, amongst other, on resolution planning and MREL, the matters relevant to the Audit Committee arising from COVID-19, the impact of COVID-19 on the economy and the Banking industry, AML and CTF, the challenges for incumbers by Fintechs with focus on international payments.

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors.

In the performance of their roles, executive Directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management.

The Company Secretary provides the Board with guidance on Board procedures and dedicated support for directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal board process.

2.3.3. Board Performance Evaluation

The Board reviews annually its effectiveness and that of its Committee as well as the performance of the Chairman and individual Directors in order to improve its operations. The objective of these evaluations is to review past performance and identify opportunities for improvement and maximize strengths. The aim of the assessments is to determine whether the Board and its committees as a whole is effective in discharging its responsibilities and, in the case of individual directors, to determine whether each director continues to contribute effectively and to demonstrate commitment to the role.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.3. Board Performance Evaluation (continued)

The Board is subject to external evaluation every three years. The last external review was conducted in 2019. The Board conducted an internal evaluation in December 2020, with the support of the NRC and the Company Secretary. The review included an evaluation of the Board, each committee, the chairman and each director through the completion of a series of online questionnaires by each director. The directors views on a range of issues including amongst other strategy, performance monitoring, reporting, risk and control, board composition and size, balance of skills, culture and communication, board agendas, quality and timeliness of information and training of directors. The assessment also included a collectively suitability assessment which followed the guidelines issued by the CBC and the EBA.

The outcome of the Board evaluation was considered by the NRC and collectively discussed by the Board. The recommendations made were intended to enhance Board processes, although they were not material to the effectiveness of the Board. The Board endorsed them and prepared an action plan to adopt them.

The Chairperson of each Board Committee led review of the results of the self-assessment process in respect of committee performance through formal discussion at committee meetings.

The self-assessment concluded that the Board remains effective in discharging its responsibilities, the effectiveness of board committees was assessed adequate, the chairman's performance evaluation concluded that Christodoulos Patsalides creates an environment that encourages contribution from all Board members, leads the Board effectively and whilst maintaining an appropriate meeting structure. The directors were assessed as effective in their roles on the Board and as continuing to demonstrate high commitment to their role and independence of mind.

The directors are aware that in case they have material concerns about the overall governance of the Group, they should report them to the Board and if these concerns are not satisfactorily addressed to the CBC.

2.3.4. Loans to Directors and other transactions

Details of loans to Directors and other transactions with the Group are set out in note 39 to the financial statements for the year ended 31 December 2020.

The Banking Law currently forbids the extension of any credit to independent members of the Board, but the CBC may exempt certain exposures from time to time having regard to the exceptionally low risk arising from the exposures concerned. Furthermore, any credit to be extended to non-independent members of the Board must comply with the following provisions of the Law:

- be approved by a resolution of the Board carried by a majority of two thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.4. Loans to Directors and other transactions (continued)

- the exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice;
- the total value of exposures in respect of all members of the Board should not exceed at any time 10% of CDB Banks's own funds, or such other lower percentage as the CBC may determine from time to time;
- the total value of any unsecured exposures granted to all members of the Board should not exceed at any time 1% of the CDB Bank's own funds or such other lower percentage as the CBC may determine from time to time;
- the total value of exposure to any member of the Board should not exceed at any time the amount of €500.000 or such other lower amount as the CBC may determine from time to time;
- no financing is permitted to any executive member of the Board that does not comply with the commercial terms or exceeds the limits that apply to all staff or such other lower amount as the CBC may determine from time to time.

Credit facilities extended to directors of the Company or directors of its subsidiaries should be granted in the normal course of the Company's business, under normal commercial and employment terms and with transparency. All relevant cases of credit facilities to Company directors and the directors of its subsidiaries are submitted for approval to the Board after the recommendation of the Credit Committee. The interested director is not present and does not participate in the discussion and approval process.

3. Internal controls

The Board is responsible for the adequacy and effectiveness of the system of internal controls in the Group. This system aims to ensure:

- The effectiveness of the governance framework is monitored, and periodically assessed and appropriate steps are taken to timely address any deficiencies;
- The appropriate compliance framework is in place;
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate;
- The appropriate information security framework for the protection of confidential information is in place;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

- The system of internal controls has been designed in accordance with the nature, scale and complexity of the Group's operations in order to provide reasonable but not absolute assurance against material misstatements, errors, losses, fraud or breaches of laws and regulations.

The overall internal control systems of the Group include:

- A transparent organisational structure with clear reporting lines to Senior Management and the Board;
- Three lines of defence model for the management of risks across the Group;
- Board and Executive Committees with clear responsibilities;
- Policies and procedures;
- Monthly reporting by business lines to enable progress to be monitored, trends to be evaluated and variances to be acted upon;
- Monthly meetings of ExCo (Executive Committee) to review performance;
- A Code of Conduct setting out the standards expected of all officers and employees;
- A Whistleblowing Policy including processes and procedures to be followed for independent investigation of concerns raised by staff.

The Board through the AC and the RC, receives the results of reviews conducted by internal and external parties through which it assesses the effectiveness of the Group's internal control, risk management and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information used for internal and regulatory reporting. The reviews cover financial, operational and compliance systems of internal controls, as well as risk management systems. In addition, the AC and RC receive business and operational risk assessments, regular reports from the Group's Internal Auditor, the Chief Compliance Officer and Chief Risk Officer, internal and external audit reports, as well as regulatory reports.

The Board, through the AC and RC, is informed on a regular basis about the actions taken by executive management to remedy the weaknesses identified through the operation of the Group's framework of internal controls.

The Group's financial reporting process is controlled using documented accounting policies and procedures supported by instructions and guidance on reporting requirements. The internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.

The Board, through the AC scrutinizes and approves the financial statement and the Annual Report and ensures that appropriate disclosures have been made. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the Group's financial statements and other significant disclosures before their publication.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight process across the Group. The Board approves the Groups Risk Appetite Statement on an annual basis and receives regular updates on the Group's risk exposure and material risks through the quarterly Risk Report.

3.1. Group code of conduct and whistleblowing policy

The Group has set out the standards that are expected from all the employees and Directors of the Group in a Code of Conduct along with guidance on how these standards should be applicable.

The Group also has a Whistleblowing Policy in place for all staff, including Directors, which is in accordance with international practice. The policy is reviewed annually. Its general principles are:

- Concerns in good faith, about wrongdoing or malpractice can be raised in confidence without fear of victimization, discrimination, disadvantage or dismissal;
- Procedures for the reporting of any matters of concern are clearly provided. The persons concerned must be able to bypass the main channels for whistleblowing if these prove inappropriate and use the anonymous reporting line;
- Disclosures are managed in a timely, consistent and professional manner.

The Board and Group CEO are committed to this policy, which encourages staff to raise concerns.

4. Members of the Management Body

4.1. Non-Executive Directors

Christodoulos Patsalides (Chairman)
Born in 1954. He has extensive experience in the financial sector. He served as General Manager of the Ministry of Finance for 17 years. At the same time, he has served as Director General of the Directorate General for European Programs, Coordination and Development (2018-2019), Deputy Director General of the Ministry of Defence (2010) and Office Director of the President of the Republic (2001-2003). He has also served for a number of years in a number of European institutions: Deputy Governor for Cyprus at the European Bank for Reconstruction and Development, the World Bank and the Board of Governors of the European Stability Mechanism. In addition, he was the representative of Cyprus to the Board of Directors of the Development Bank of the Council of Europe and the Council of the European Financial Stability Fund. He holds a Bachelor of Science in Economics from the University of Athens and a Masters in Economics from London University.

Term of Office: Appointed to the Management Body on 10 March 2020
Independent: Yes
Member of a Board Committee: Nomination and Remunerations Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

George A. Loizou
Born in 1953. He is an experienced banker and risk management professional with extensive experience in operational risk management. He is a graduate of the Dale Carnegie Leadership Course with specialisation in Management. He is also an Associate of the London Institute of Banking and Finance, and a Professional Member of the Institute of Operational Risk Management (PIOR), UK as well as a Certified Trainer by the HRD. In 1973 he joint Barclays Bank PLC (Cyprus) where he worked at various positions. From 1996 to 2013 he was employed by Hellenic Bank PLC's where he served at various managerial positions before becoming the Group's Operational Risk Manager. He also served as a member of the Risk Management Committee of the JCC Payment Systems. Following his retirement from Hellenic Bank he assumed consultancy and training projects for renowned institutions in Cyprus, in the areas of Banking and Risk Management.

Term of Office: Appointed to the Management Body on 8 April 2015
Independent: Yes
Member of a Board Committee:
- Chairman of the Nomination and Remunerations Committee
- Risk Committee
- Credit Committee

George Pavlides
Born in 1953. He is a UK qualified Chartered Accountant of the Institute of Chartered Accountants in England and Wales since 1977. He spent his earlier career with top 4 audit firms Deloitte & Touche and Ernst & Young. Subsequently he moved into the business sector where he held senior managerial positions with several large international organisations including the AG Leventis Group, Agip (Hellas) and Raychem Corp. (US). Between 2000 and 2008 he was employed as Deputy General Manager and subsequently Branch Manager at DEPFA Bank PLC (Cyprus Branch). He is currently a Financial Administrator for the Leonidas Ioannou family.

Term of Office: Appointed to the Management Body on 8 April 2015
Independent: No
Member of a Board Committee:
- Chairman of the Risk Committee
- Audit Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Neoclis Nicolaou (Vice Chairman)
Born in 1959. He is Specialist in Corporate and Investment Banking. He has extensive experience in investment Management, capital raising, project and investment financing, financial engineering, valuations and mergers and acquisitions. Extensive experience in corporate strategy work. Over the years he has made Investment Banking services available to a large number of local and overseas companies both private and public. He has also acted as an expert advisor on governmental projects. He acted as the lead manager on behalf of the Eurogate consortium which was successful in acquiring the concession for the Limassol Container Terminal. He has served as a non executive director in a number of institutions including TFI Public Co. Ltd, The Argus Lamda Fund Ltd, The Argus Stockbrokers Ltd, IronFX Global Ltd, The Cyprus International Institute of Management, Global Capital Securities and Financial Services Ltd etc. Currently he is the Managing Director of Neoconsult Ltd. He holds a Bachelor in Econometrics from the Manchester University and an MBA from the Manchester Business School.

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No
Member of a Board Committee:
- Chairman of the Credit Committee
- Nomination and Remunerations Committee

Wahid Pierre Chammas
Born in 1975. He is an experienced investment management professional with over two decades of financial industry experience. He is the Founder and Chief Investment Officer of TyreGate Capital Holdings Ltd, a private equity business with over 40 owned companies. Previously, he was with Janus Capital Group for 11 years where he served as a Managing Director, Portfolio Manager and Head of the developed and emerging EMEA investment franchise and strategies, and where he established Janus' investment presence in Europe in 2008. He was recognized in Financial News (Dow Jones) as a Rising Star, 40 Under 40 in Asset Management, and has been highly rated on numerous occasions by Citywire. Prior to joining the Janus in January 2005, he spent eight years at Goldman, Sachs & Co., where he was a Vice President and sell-side Equity Securities Analyst, covering the media sector. He joined Goldman Sachs' Investment Research Division as a Vice President in 2002 from Goldman Sachs Asset Management, where he served as the Chief-of-Staff for the U.S. distribution group, supporting strategic planning and management activities across the asset management division. He received his Bachelor of Arts degree in Biology from Amherst College in 1997.

Term of Office: Appointed to the Management Body on 26 June 2018
Independent: Yes
Member of a Board Committee: Nomination and Remunerations Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Avgoustinos Papathomas
Born in 1963. He holds a BSc and BEng in Engineering Manufacture and Management from the University of Manchester Institute of Science & Technology. He is a fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Certified Public Accountants of Cyprus and a licensed Insolvency Practitioner. Avgoustinos is the senior partner of a recently established Advisory and Audit firm, APP Advisory/Audit. Avgoustinos has served as a director on various organizations and is currently the chairman of the Famagusta Chamber of Commerce and Industry.

Term of Office: Appointed to the Board of Directors on 7 May 2019
Independent: Yes
Appointed as the member of the MB responsible of the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2018
Member of a Board Committee:
- Chairman of the Audit Committee
- Nomination and Remunerations Committee
- Credit Committee

Christodoulos Plastiras
Born in 1984. He is an enthusiastic entrepreneur with extensive knowledge in Banking, Technology, Finance and Business and holds a Bachelor's degree in Computer Science from the University of Cambridge and a Master's degree in Finance from Imperial College. He is the co-founder and non-executive Director of Melior Capital, a technology company which develops and runs some of the country's most successful e-commerce projects and serves as a director of a number of other technology companies. He has led the Digital Transformation of many large corporations in a variety of industries and participates as a mentor or judge in many start-up initiatives in Cyprus and abroad.

Term of Office: Appointed to the Board of Directors on 7 May 2019
Independent: Yes
Member of a Board Committee:
- Audit Committee
- Risk Committee
- Credit Committee

4.2. Executive Directors

Stella Avraam (Executive Director – Group CFO, Acting CEO from 1 December 2020)
Born in 1965. She is an experienced banking professional having served in the banking sector for more than 25 years in various positions within the Finance Division setting. She serves as the CFO of the Cyprus Development Bank PLC since October 2016, while previously she was the Chief Accountant since January 2009. She also serves at the Board of Directors of a number of subsidiaries of the Group. She is a qualified Accountant and a member of the Association of Chartered Certified Accountants and the Institute of Certified Public Accountants of Cyprus. She also holds an MBA from the Cyprus International Institute of Management.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.2. Executive Directors (continued)

Stella Avraam (Executive Director – Group CFO, Acting CEO from 1 December 2020) (continued)

Term of Office: Appointed to the Management Body on 27 September 2019
Independent: No
Member of a Board Committee: None

5. Board Committees

In order to exercise proper oversight of risk and control, the Board has delegated certain responsibilities to committees of the Board. The principal committees are the AC, the RC, the NRC and the CC. The key roles of the Board committees are provided in the sections that follow. The terms of reference of the main statutory committees are based on the relevant provisions of the CBC Governance Directive and are available on the Group's website (www.cdb.com.cy) or by request to the Company Secretary.

The overall responsibility for approving and monitoring the Group's strategy, risk appetite and policies for managing risks lies with the Board, which exercises this responsibility through two of its main committees, namely the RC and the AC.

The Chairman of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings. This linkage is important between the committees as it ensures alignment of the work conducted by the various committees. Furthermore, cross membership is encouraged as it ensures alignment of the work performed by the Committees as well as to avoid duplication of responsibilities. Committees may also hold joint meetings to discuss items of common interest such as the AC and RC discussion and review of impairment or risk appetite for AML and CTF risks.

5.1. Nomination and remunerations committee (NRC)

The NRC comprised four non-executive Directors at 31 December 2020, three of whom were independent (31 December 2019: five, three of whom were independent).

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 11 meetings in 2020. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The key responsibilities of the NRC are set out in its terms of reference, which are available on the Group's website (www.cdb.com.cy) and have been approved by the Board.

The role of the Committee is to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of Directors and to support and advise the Board in relation to:

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.1. Nomination and remunerations committee (NRC) (continued)

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board);
- Directors' development;
- Chairperson development (under the overall responsibility and supervision of the SID);
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual Directors, and
- Succession planning for Directors and senior management;
- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results;
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies;
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues;
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices and the CBC Governance Directive.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

5.2. Audit committee (AC)

As at 31 December 2020, the AC comprised of three non-executive Directors, two of whom, including the Chairman of the Committee, were independent (31 December 2019: five). Two of the members of the Committee are also members of the RC, while the Chairman of the Committee, who has extensive experience in the audit profession is also a member of the NRC.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 12 meetings in 2020. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The key responsibilities of the AC are set out in its terms of reference, which are available on the Group's website (www.cdb.com.cy) and have been approved by the Board.

The role of the Committee, inter alia, is:

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.2. Audit committee (AC) (continued)

- To oversee the system of internal controls including reviewing its effectiveness;
- To monitor the integrity of the Group's financial statements;
- To monitor the effectiveness of the internal audit function;
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor;
- To review the Group's and Company's financial and accounting policies and practices;
- To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory/ethics compliance; and
- To make recommendations to the Board on such matters.

The role of the Committee is fundamental in ensuring the financial integrity and accuracy of the Company's financial reporting. Good, open relationships between the Committee, the Chief Financial Officer, the Internal Auditor and the Head of Compliance as well as the external auditors, are essential to adding value to the organisation. This is achieved by holding management to account for the implementation of all audit recommendations (internal and external). In addition to providing assurance within the governance and accountability structures of the Group, it is essential that the Committee contributes, delivers results and adds value to the Group.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors are fully informed of the Committee's activities.

5.2.1. Internal audit independence

The Group Internal Audit and Group Compliance Divisions report directly to the Board through the AC. They are organisationally independent of units with executive functions and are not subordinated to any other unit.

The Committee's activities include considering reports submitted by the Group Internal Audit and Group Compliance Divisions as well as regular meetings with the Internal Auditor and the Compliance Officer through which the Committee assesses Internal Audit Unit's and Compliance Unit's effective and adequate resourcing. Management's responses to Group Internal Audit's findings and recommendations are also reviewed and monitored by the Committee. The reports issued by the Internal Auditor and the Compliance Officer enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time.

5.3. Risk committee (RC)

The RC is responsible for advising the Board on high-level risk related matters and risk governance and for non-executive oversight of risk management and internal controls (other than financial reporting).

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.3. Risk committee (RC) (continued)

The RC on 31 December 2020 comprised three independent non-executive Directors (31 December 2019: three). Biographical details, including each member's background, experience and independence status are set out in section 4 of this report. The Chairman of the Committee and another Member are also members of the Audit Committee.

The Committee held 11 meetings in 2020. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and risk appetite remain appropriate. Specifically, it:

- Advises the Board on risk appetite and alignment with strategy;
- Monitors the effectiveness of the Group's risk management and internal control systems except from financial reporting and compliance internal control systems;
- Monitors the Group's risk appetite and risk profile against key performance/risk indicators as set out in the Group's Risk Appetite Statement;
- Identifies the potential impact of key issues and themes that may impact the risk profile of the Group;
- Ensures that the Group's overall risk profile and risk appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment;
- Seeks to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees.

The Group, like all other financial institutions, is exposed to risks, the most significant of which are credit risk, liquidity and funding risk, market risk, operational risk and property price risk. The Group monitors and manages these risks through various control mechanisms and reviews the mitigating actions proposed by management.

Information relating to Group Risk Management is set out in note 35 to the financial statements.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

5.4. Credit Committee (CC)

The CC is responsible for advising the Board on significant credit risk exposures.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.4. Credit Committee (CC) (continued)

The CC on 31 December 2020 comprised four non-executive Directors, of whom three were independent (31 December 2019: five). Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 25 meetings in 2020. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1. Cross Committee membership with RC is considered important and three members of the Committee are also Members of the RC.

The main purpose of the Committee is to review, on behalf of the Board, individually significant exposures for both new lending and restructuring within approval authorities reserved by the Board and to ensure that the risk profile of such exposures is in line with the risk appetite for credit risk, risk strategy and credit risk policies.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

6. Remuneration policy

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CBC Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the EBA Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions pertinent to the banking sector currently.

The remuneration of non-executive Directors is determined and approved by the Board. Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The remuneration of non-executive directors is not linked to the profitability of the Group. It is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the committees of the Board and any participation in the boards of Group subsidiary companies. The remuneration of non-executive directors is approved annually by the AGM.

The remuneration of executive directors is set out in their contracts of employment unless any of the executive directors is an appointed member of the senior management team, in which case the terms of employment are based on the provisions of the collective agreement in place, excluding the CEO.

7. Shareholders relations

One of the responsibilities of the Chairman of the Board is to ensure that the views, issues and concerns of shareholders are effectively communicated to the Board and to ensure that Directors develop an understanding of the views of major investors. The SID is available to shareholders if they have concerns that are not resolved through the normal communication channels.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

7. Shareholders relations (continued)

All shareholders of the Company are treated on an equal basis. There are no shareholders with special control rights. Shareholders are informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

Any change or addition to the Articles of Association of the Company is only valid if approved by special resolution at a meeting of the shareholders.

Details of the shareholders are disclosed in note 38 to the financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 39 to the consolidated and stand-alone financial statements.

EVENTS AFTER THE REPORTING PERIOD

Disclosed in note 42 to the consolidated and stand-alone financial statements.

INDEPENDENT AUDITORS

According to the requirements of the Auditors Law of 2017 for mandatory audit firm rotation, the audit tenure of the auditors of the Bank, KPMG Limited, elapses at the signing of the financial statements of Financial Year 2020. On this basis, during 2020-2021 the Bank conducted a competitive tender process to appoint new external auditors for the Company and its subsidiaries. The relevant tender was overseen by the Audit Committee of the Board of Directors of the Company.

Following this competitive tender process, the Board of Directors of the Bank and of each of its subsidiaries have approved the relevant recommendation for the appointment of Deloitte Ltd as the External Auditors of the Bank and its subsidiaries for the audit of the Financial Year 2021. A resolution authorising the Board of Directors to appoint and fix their remuneration will be proposed at the next Annual General Meeting.

The members of the Management Body would like to thank KPMG for their valuable contribution as external auditors of the Bank and its subsidiaries during the period of their appointment.

By the order of the Management Body

Christodoulos Patsalides
Chairman

Nicosia, 7 June 2021

KPMG Limited
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED

Report on the audit of the consolidated financial statements and the separate financial statements

Opinion

We have audited the accompanying consolidated financial statements of The Cyprus Development Bank Public Company Limited and its subsidiaries (the "Group") and the separate financial statements of The Cyprus Development Bank Public Company Limited (the "Bank"), which are presented on pages 40 to 152 and comprise the consolidated and separate statement of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "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 *"Auditors' responsibilities for the audit of the consolidated financial statements"'* section of our report. We remained independent of the Group and the Bank throughout the period of our appointment in accordance with the International Code of Ethics (Including International Independence Standards) for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code") together with the ethical requirements in Cyprus that are relevant to our audit of the consolidated and separate financial statements, 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.

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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 Bank's consolidated and separate 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.

<table>
<tr><th colspan="2">Provision for impairment of loans and advances</th></tr>
<tr><td colspan="2">Refer to note 17 (loans and advances) and to note 3.12 (significant accounting policies – impairment of financial assets) to the consolidated and separate financial statements.</td></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2020, gross loans and advances to customers held at amortised cost amounted to €289 million (2019: €281) and the related impairment loss allowance amounted to €62 million (2019: €53).

The key areas that required considerable judgement in our opinion and therefore greater level of audit focus regarding the estimation of IFRS 9 impairment loss allowance are:

– Staging: Assess the significant deterioration of credit risk (including any COVID 19 impact) and classify loans in credit risk stages;
– Macroeconomic scenarios to the ECL estimate: IFRS 9 requires the Bank to incorporate forward-looking information into estimating ECL. This involves judgement in determining the macroeconomic scenarios used and the weightings applied to them;
– ECL estimate: The calculation of impairment allowance requires great judgment by the Management on the macroeconomic criteria to be used on the calculation of expected credit loss, which involves the determination of probability of default (PD), loss given default (LGD) and exposure at default (EAD).</td><td>Our audit procedures in this area included, among others:
– Assessing on a sample basis the appropriateness of the assigned staging of the loans;

– Assessing the appropriateness of the forecasts and macroeconomic variables used in the Bank's IFRS 9 model by comparing them to the relevant reports issued by external experts (Moody's) and other external sources;

– Assessing the appropriateness of the key assumptions used by the Bank in determining the ECL estimate;

– Assessing, for a sample of collaterals, collateral values with reference to valuations performed by external valuators, property indices used and forecasted property indices;

– Assessing the accuracy of the data used by the Bank in the ECL estimate to supporting evidence (ie mortgage documents, valuation reports, loan agreements);

– Performing credit assessment and impairment recalculation for a sample of loans exposures classified in stage 3, focusing on group of loans with different risk characteristics, assessing the adequacy of provision;

– For stage 1 and stage 2 loans and advances to customers, with the support of our internal financial risk modelling specialists, we:

• inspected the model documentation and methodology, and assessed whether the model methodology in consistent with the IFRS 9 requirements on ECL;</td></tr>
</table>

As a result of the size of loans and advances to customers and the judgments involved, we determined that impairment of loans and advances to customers is a key audit matter.	• assessed the methodology and mathematical integrity used in the ECL model and tested key assumptions and inputs by performing procedures over the model components PD, LGD, EAD, SICR, Definition of default; • performed risk based substantive testing of the model by independently recalculating certain assumptions and comparing the calculated ECL to the Bank's ECL. Assessing whether the disclosures in the financial statements appropriately and adequately reflect the Bank's and the Group's exposure to credit risk and address the uncertainty which exists in determining expected credit losses.

Going concern

Refer to note 2.1 (going concern) and to note 35 (risk management) to the consolidated and separate financial statements.

Key audit matter	**How the matter was addressed in our audit**
The Bank continued to be loss making during 2020 but with a capital adequacy ratio as at 31 December 2020 above the minimum total capital requirement set by the Central Bank of Cyprus. The Board of Directors of the Bank concluded that the adoption of the going concern basis in preparing these financial statements is appropriate. This was based on the current and future regulatory requirements relating to capital and liquidity, the forecasted financial performance and financial position of the Group and the economic risks unprecedented conditions arising from the COVID-19 pandemic. Due to the judgments and uncertainties involved in the forecasts that the going concern assessment is based on, we determined that going concern is a key audit matter.	Our audit procedures in this area included, among others: – Critically assessing the forecasts prepared by the Management by comparing forecasts to actual results for the first quarter of 2021, making inquiries and challenging the assumptions used, assessing management's ability to prepare forecasts by comparing prior year's forecasts to current year's actual results; – Performing sensitivity analysis on the main assumptions of the Bank's forecasts; – Challenging the main assumptions used in the Bank's forecasts and assessing their reasonableness; – Assessing the correspondence with Central Bank of Cyprus (CBC) regarding the forecast and capital plan and considering CBC's comments in our sensitivity analysis and challenges and whether the Bank took them into account in its revised plan; – Assessed the credit risk, liquidity position and maturity of the Bank's assets and liabilities; – Assessing the capital adequacy ratio of the Bank as at 31 December 2020 with the support of KPMG specialist to ensure the accuracy of the calculations;

	– Obtaining future regulatory capital projections and assessing the Bank's ability to raise capital when needed for capital adequacy purposes based on prior years' trends and obtaining commitment confirmations from the shareholders in injecting additional capital; Considering the adequacy of the Group's disclosures in respect of the going concern assumption.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement, which is included as a specific section in the Management Report, but does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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.

With regards to the Management Report, our report in this regard is presented in the *"Report on other legal and regulatory requirements"* section.

Responsibilities of the Board of Directors and those charged with governance for the consolidated and separate financial statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors and those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 and separate financial statements.

Auditors' responsibilities for the audit of the consolidated and separate financial statements (cont.)

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 and separate 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 and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Report on other regulatory and legal requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of European Union (EU) Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of appointment and period of engagement

We were appointed auditors on 1 June 1963 by the General Meeting of the Bank's members to audit the consolidated and separate financial statements for the year ended 31 December 1963. Our total uninterrupted period of engagement, having been renewed annually by shareholders' resolution is 58 years covering the periods ending 31 December 1963 to 31 December 2020.

Consistency of auditors' report to the additional report to the Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed in this report is consistent with the additional report presented to the Audit Committee of the Bank, which is dated 7 June 2021.

Provision of Non-audit Services ('NAS')

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

Pursuant to the additional requirements of law L.53(I)/2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the Management Report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap 113, and the information given is consistent with the consolidated and separate financial statements.
- In the light of the knowledge and understanding of the business and the Group's and the Bank's environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated and separate financial statements.
- In light of the knowledge and understanding of the Group and the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of the subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113. We have not identified any material misstatements in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap.113.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L.53(I)/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 auditors' report is Pangratios P. Vanezis.

Pangratios P. Vanezis, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087
Nicosia
Cyprus

7 June 2021

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
Continuing Operations			
Turnover		17.042	19.809
Interest income calculated using the effective interest method	4	10.627	12.919
Interest expense calculated using the effective interest method	5	(799)	(2.208)
Net interest income		9.828	10.711
Fee and commission income	6	3.938	3.555
Fee and commission expense	7	(384)	(399)
Net foreign exchange gains	8	524	760
Other income	9	1.953	2.575
Total net income		**15.859**	**17.202**
Staff costs	10	(7.787)	(7.066)
Other operating expenses	11	(3.542)	(3.662)
Depreciation	12	(1.040)	(1.050)
Profit before provisions for impairment		**3.490**	**5.424**
Provisions for impairment	12	(6.184)	(2.342)
(Loss)/profit after provisions for impairment		**(2.694)**	**3.082**
Transfer from reserves – foreign currency reserve on liquidation of Russian subsidiary		-	(2.920)
(Loss)/profit before tax from continuing operations		**(2.694)**	**162**
Tax	13	(660)	(684)
Loss for the year after tax from continuing operations		(3.354)	(522)
Discontinued Operations			
Loss after tax from discontinued operations	14	-	(399)
Loss for the year		**(3.354)**	**(921)**
Loss for the year attributable to:			
Owners of the Bank – continuing operations		(3.343)	(541)
Owners of the Bank – discontinued operations		-	(399)
		(3.343)	(940)
Non-controlling interests		(11)	19
Loss for the year		**(3.354)**	**(921)**
Basic and fully diluted loss per share (cent)	15	(7,72)	(2,57)
Basic and diluted loss per share (cent) from continuing operations	15	(7,72)	(1,48)

The notes on pages 53 to 152 form an integral part of the financial statements.

INCOME STATEMENT

For the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
Turnover		15.734	19.236
Interest income calculated using the effective interest method	4	11.524	12.845
Interest expense calculated using the effective interest method	5	(793)	(2.202)
Net interest income		10.731	10.643
Fee and commission income	6	3.604	3.044
Fee and commission expense	7	(323)	(352)
Net foreign exchange gains	8	552	787
Other income	9	54	2.561
Total net income		**14.618**	**16.683**
Staff costs	10	(7.507)	(6.760)
Other operating expenses	11	(3.402)	(3.390)
Depreciation	12	(1.005)	(1.039)
Profit before provisions for impairment		**2.704**	**5.494**
Provisions for impairment	12	(5.525)	(2.473)
(Loss)/profit before tax		**(2.821)**	**3.021**
Tax	13	(659)	(739)
(Loss)/profit for the year after tax		**(3.480)**	**2.282**
Basic and fully diluted (loss)/earnings per share (cent)	15	(8,04)	6,23

The notes on pages 53 to 152 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
Loss for the year		**(3.354)**	**(921)**
Other comprehensive income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency reserve			
Exchange gains arising on the retranslation of foreign subsidiary's financial statements		-	146
Exchange gains transferred to income statement upon liquidation of subsidiary		-	2.920
		-	3.066
Fair value reserve (debt instruments)			
Net (losses)/gains on investments in debt instruments measured at fair value through OCI (FVOCI)	19	(51)	338
Transfer to the income statement on disposal		(37)	166
		(88)	504
Total OCI that may be reclassified in the income statement in subsequent periods		**(88)**	**3.570**
OCI items not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net (losses)/gains on investments in equity instruments designated at FVOCI	18	(129)	716
		(129)	716
Property revaluation reserve			
Gains from revaluation of premises	22	24	-
Deferred tax on revaluation of premises	27	(63)	-
		(39)	-
Total OCI not to be reclassified in the income statement in subsequent periods		**(168)**	**716**
Other comprehensive (loss)/income for the year net of taxation		**(256)**	**4.286**
Total comprehensive (loss)/income for the year		**(3.610)**	**3.365**
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Bank - continuing operations		(3.597)	3.596
Owners of the Bank - discontinued operations		-	(253)
		(3.597)	3.343
Non-controlling interests		(13)	22
Total comprehensive (expenses)/income for the year		**(3.610)**	**3.365**

The notes on pages 53 to 152 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
(Loss)/profit for the year		**(3.480)**	**2.282**
Other comprehensive income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Fair value reserve (debt instruments)			
Net (losses)/gains on investments in debt instruments measured at fair value through OCI (FVOCI)	19	(75)	321
Transfer to the income statement on disposal		-	170
Total OCI that may be reclassified in the income statement in subsequent periods		**(75)**	**491**
OCI items not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net (losses)/gains on investments in equity instruments designated at FVOCI	18	(129)	707
Net losses from revaluation of subsidiaries		(92)	(130)
		(221)	577
Property revaluation reserve			
Gains from revaluation of premises	22	24	-
Deferred tax on revaluation of premises	27	(63)	-
		(39)	-
Total OCI not to be reclassified in the income statement in subsequent periods		**(260)**	**577**
Other comprehensive (loss)/income for the year net of taxation		**(335)**	**1.068**
Total comprehensive (loss)/income for the year		**(3.815)**	**3.350**

The notes on pages 53 to 152 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Note	2020 €'000	2019 €'000
ASSETS			
Cash and balances with central banks	16	186.928	180.693
Balances with other banks	16	59.719	21.663
Loans and advances	17	227.235	227.698
Investments in equities	18	-	850
Investments in debt securities	19	82.277	95.851
Premises and equipment	22	6.929	6.979
Intangible assets	23	871	998
Receivables and other assets	24	16.699	20.902
Total assets		**580.658**	**555.634**
LIABILITIES			
Bank borrowings	25	3.171	3.592
Client deposits	26	524.281	496.298
Deferred taxation	27	440	350
Accruals and other liabilities	28	7.499	6.472
Total liabilities		535.391	506.712
Loan capital	30	5.000	5.000
EQUITY			
Share capital	31	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		19.435	19.435
Reserves		(4.053)	(414)
Equity attributable to owners of the parent company		40.085	43.724
Non-controlling interests		182	198
Total equity		40.267	43.922
Total liabilities and equity		**580.658**	**555.634**
Contingent liabilities and commitments	32	68.105	77.347

These Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 7 June 2021.

Mr. Christodoulos Patsalides	Chairman	**Mr. Avgoustinos Papathomas**	Director
Mr. George Loizou	Director	**Mrs. Stella Avraam**	Acting Chief Executive Officer

The notes on pages 53 to 152 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Note	2020 €'000	2019 €'000
ASSETS			
Cash and balances with central banks	16	186.928	180.693
Balances with other banks	16	59.635	21.383
Loans and advances	17	227.235	227.698
Investments in equities	18	-	850
Investments in debt securities	19	82.277	95.601
Investments and exposures in subsidiary companies	20	13.782	19.598
Premises and equipment	22	6.879	6.974
Intangible assets	23	862	978
Receivables and other assets	24	1.049	1.349
Total assets		**578.647**	**555.124**
LIABILITIES			
Bank borrowings	25	3.171	3.592
Client deposits	26	524.281	496.298
Deferred taxation	27	440	350
Accruals and other liabilities	28	5.826	6.140
Total liabilities		533.718	506.380
Loan capital	30	5.000	5.000
EQUITY			
Share capital	31	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		19.435	19.435
Reserves		(4.209)	(394)
Total equity		39.929	43.744
Total liabilities and equity		**578.647**	**555.124**
Contingent liabilities and commitments	32	68.105	77.347

These Financial Statements have been approved and authorised for issue by the Management Body on 7 June 2021.

Mr. Christodoulos Patsalides	Chairman	**Mr. Avgoustinos Papathomas**	Director
Mr. George Loizou	Director	**Mrs. Stella Avraam**	Acting Chief Executive Officer

The notes on pages 53 to 152 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

2020	Attributable to the parent company's owners							
	Share capital €'000	Share premium €'000	Capital reduction reserve fund €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2020	8.655	16.048	19.435	2.756	(3.170)	43.724	198	43.922
Correction in opening balance of subsidiaries reserves	-	-	-	-	(42)	(42)	(3)	(45)
Restated balance 1 January 2020	8.655	16.048	19.435	2.756	(3.212)	43.682	195	43.877
Total comprehensive loss after taxation								
Loss for the year	-	-	-	-	(3.343)	(3.343)	(11)	(3.354)
Other comprehensive loss	-	-	-	(254)	-	(254)	(2)	(256)
Total comprehensive loss	-	-	-	(254)	(3.343)	(3.597)	(13)	(3.610)
Transfers between reserves								
Depreciation difference on surplus value over cost	-	-	-	17	(17)	-	-	-
Tranfer from revaluation to revenue reserves excess value on equity investments disposed	-	-	-	(701)	701	-	-	-
Total transfers between reserves	-	-	-	(684)	684	-	-	-
Balance 31 December 2020	**8.655**	**16.048**	**19.435**	**1.818**	**(5.871)**	**40.085**	**182**	**40.267**

The notes on pages 53 to 152 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

2019	Attributable to the parent company's owners										
	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Non-redeemable capital account €'000	Non-distributable reserve €'000	Revaluation reserve €'000	Foreign currency reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2019	35.164	11.211	-	4.000	90	1.784	(3.026)	(13.142)	36.081	176	36.257
Total comprehensive income after taxation											
(Loss)/profit for the year	-	-	-	-	-	-	-	(940)	(940)	19	(921)
Other comprehensive income	-	-	-	-	-	1.289	3.026	(32)	4.283	3	4.286
Total comprehensive income	-	-	-	-	-	1.289	3.026	(972)	3.343	22	3.365
Transfers between reserves											
Excess depreciation on revaluation surplus	-	-	-	-	-	17	-	(17)	-	-	-
Net gains on equity investments disposed	-	-	-	-	-	(334)	-	334	-	-	-
JSC cdbbank reserves upon completion of voluntary wind-up	-	-	-	-	(90)	-	-	90	-	-	-
Total transfers between reserves	-	-	-	-	(90)	(317)	-	407	-	-	-
Transactions with owners of the Bank - contributions and distributions											
Capital increase	2.606	1.694	-	-	-	-	-	-	4.300	-	4.300
Capital reductions towards negative reserves and capital reduction reserve	(29.972)	-	19.435	-	-	-	-	10.537	-	-	-
Conversion of non-redeemable capital account into ordinary share capital	857	3.143	-	(4.000)	-	-	-	-	-	-	-
Total contributions and distributions	(26.509)	4.837	19.435	(4.000)	-	-	-	10.537	4.300	-	4.300
Balance 31 December 2019	**8.655**	**16.048**	**19.435**	**-**	**-**	**2.756**	**-**	**(3.170)**	**43.724**	**198**	**43.922**

The notes on pages 53 to 152 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

Share capital

There were no changes in the share capital of the Bank during the year ended 31 December 2020.

On 12 March 2019 an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. Details of the share capital increase are set out in note 31 to the financial statements.

Capital reduction reserve fund

At the EGM of the Bank's shareholders dated 12 March 2019, a resolution was proposed and approved for the reduction of the issued share capital of the Bank from €35.164 thousand to €5.192 thousand. The amount of €29.972 thousand corresponding to the reduction of the Company's issued share capital was applied for writing off accumulated losses of the Bank and the remaining amount was transferred to a capital reduction reserve fund account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap.113.

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there was a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

On 24 September 2019, with a special resolution of the shareholders of the Bank, the non-redeemable capital account of €4 million was converted into ordinary share capital through the issue and allotment of 4.284.322 ordinary shares with a nominal value of €0,20 each to four of the Bank's existing shareholders at a total price of €4 million (€0,9336 perordinary share).

Non-distributable reserve

The non-distributable reserve comprises of amounts transferred from revenue reserve by the foreign subsidiary, JSC cdbbank, to cover possible future losses in accordance with Russian legislation. On completion of the voluntary wind-up of JSC cdbbank the reserve was transferred to revenue reserve.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is non distributable.

Foreign currency reserve

This reserve relates to exchange differences on the Russian subsidiary. In September 2019 on the completion of the voluntary winding-up of the Russian subsidiary the outstanding balance was transferred to the Income Statement.

The notes on pages 53 to 152 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

2020	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2020	8.655	16.048	19.435	1.592	(1.986)	43.744
Total comprehensive loss after taxation						
Loss for the year	-	-	-	-	(3.480)	(3.480)
Other comprehensive loss	-	-	-	(335)	-	(335)
Total comprehensive loss	-	-	-	(335)	(3.480)	(3.815)
Transfers between reserves						
Excess depreciation on revaluation surplus	-	-	-	17	(17)	-
Net gains on equity investments disposed	-	-	-	(701)	701	-
Total transfers between reserves	-	-	-	(684)	684	-
Balance 31 December 2020	**8.655**	**16.048**	**19.435**	**573**	**(4.782)**	**39.929**

2019	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Non-redeemable capital account €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2019	35.164	11.211	-	4.000	(3.745)	(10.536)	36.094
Total comprehensive income after taxation							
Profit for the year	-	-	-	-	-	2.282	2.282
Other comprehensive income	-	-	-	-	1.068	-	1.068
Total comprehensive income	-	-	-	-	1.068	2.282	3.350
Transfers between reserves							
Revaluation reserve on Russian subsidiary	-	-	-	-	4.458	(4.458)	-
Excess depreciation on revaluation surplus	-	-	-	-	17	(17)	-
Net gains on equity investments disposed	-	-	-	-	(206)	206	-
Total transfers between reserves	-	-	-	-	4.269	(4.269)	-
Transactions with owners of the Bank - contributions and distributions							
New capital	2.606	1.694	-	-	-	-	4.300
Capital reductions towards negative reserves and capital redemption reserve	(29.972)	-	19.435	-	-	10.537	-
Conversion of non-redeemable capital account into issued share capital	857	3.143	-	(4.000)	-	-	-
Total contributions and distributions	(26.509)	4.837	19.435	(4.000)	-	10.537	4.300
Balance 31 December 2019	**8.655**	**16.048**	**19.435**	**-**	**1.592**	**(1.986)**	**43.744**

The notes on pages 53 to 152 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

Share capital

There were no changes in the share capital of the Bank during the year ended 31 December 2020.

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Capital reduction reserve fund

At the EGM of the Bank's shareholders dated 12 March 2019, a resolution was proposed and approved for the reduction of the issued share capital of the Bank from €35.164 thousand to €5.192 thousand. The amount of €29.972 thousand corresponding to the reduction of the Company's issued share capital was applied for writing off accumulated losses of the Bank and the remaining amount was transferred to a capital reduction reserve fund account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there was a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

On 24 September 2019, with a special resolution of the shareholders of the Bank, the non-redeemable capital account of €4 million was converted into ordinary share capital through the issue and allotment of 4.284.322 ordinary shares with a nominal value of €0,20 each to four of the Bank's existing shareholders at a total price of €4 million (€0,9336 per ordinary share).

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 53 to 152 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group loss for the year from continuing operations		(3.354)	(522)
Group loss for the year from discontinued operations		-	(399)
Adjustments for:			
Interest from debt securities	4	(466)	(960)
Loss on disposal of premises and equipment	12	-	6
Revaluation of premises and equipment	22	332	-
Depreciation of premises and equipment	12	632	659
Depreciation of intangible assets	12	408	391
Net foreign exchange gains		(524)	(760)
Impairment losses and provisions	12	6.184	2.342
Interest expense on lease liability	5	25	29
Foreign currency reserve on Russian subsidiary		-	2.920
Tax	13	660	684
		3.897	4.390
Change in:			
Obligatory balances with Central Bank		(12)	113
Placements with other banks		75	823
Loans and advances		(4.822)	12.219
Client deposits		27.983	(19.692)
Bank borrowings		(421)	(421)
Working capital and other items of the statement of financial position		4.363	(17.019)
Net cash from/(to) operating activities before tax		31.063	(19.587)
Taxes and special contributions paid		(633)	(719)
Net cash from/(to) operating activities		30.430	(20.306)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	22	(307)	(128)
Acquisition of intangible assets	23	(281)	(324)
Proceeds from disposal of equity investments	18	721	901
Acquisition of debt securities	19	(76.695)	(188.202)
Proceeds on disposal/redemption of debt securities	19	90.062	171.361
Interest from debt securities	4	466	960
Proceeds from subsidiary company under voluntary wind up		-	3.748
Net cash from/(used in) investing activities		13.966	(11.684)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	4.300
Principal element of lease payments		(212)	(205)
Net cash (to)/from financing activities		(212)	4.095
Net increase/(decrease) in cash and cash equivalents		44.184	(27.895)
Effect of exchange rate fluctuations on cash and cash equivalents		170	(579)
Cash and cash equivalents at the beginning of the year		197.413	225.887
Cash and cash equivalents at the end of the year	34	241.767	197.413
Non-cash investing activities			
Reduction of issued share capital utilised to write off accumulated losses	31	-	10.537
Reduction of issued share capital through Capital reduction reserve fund account	31	-	19.435
Conversion of non-redeemable capital account into ordinary share capital	31	-	4.000
		-	33.972

The notes on pages 53 to 152 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(3.480)	2.282
Adjustments for:			
Interest from debt securities	4	(464)	(958)
Revaluation of premises and equipment	22	332	-
Loss on disposal of premises and equipment	12	-	1
Depreciation of premises and equipment	12	608	655
Depreciation of intangible assets	12	397	384
Net foreign exchange gains		(552)	(787)
Impairment losses and provisions to cover credit risk	12	5.525	2.473
Interest expense on lease liability	5	23	29
Tax	13	659	739
		3.048	4.818
Change in:			
Obligatory balances with Central Bank		(12)	113
Placements with other banks		75	823
Loans and advances		(4.822)	12.219
Client deposits		27.983	(19.692)
Bank borrowings		(421)	(421)
Working capital and other items of the statement of financial position		5.660	(17.470)
Net cash from/(to) operating activities before tax		31.511	(19.610)
Taxes and special contributions paid		(632)	(718)
Net cash from/(to) operating activities		30.879	(20.328)
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	22	(307)	(126)
Acquisition of intangible assets	23	(281)	(307)
Proceeds from disposal of equity investments	18	721	530
Acquisition of debt securities	19	(76.695)	(187.970)
Proceeds on disposal/redemption of debt securities	19	89.789	171.361
Interest from debt securities	4	464	958
Proceeds from subsidiary company under voluntary wind up		-	3.748
Net cash from/(to) investing activities		13.691	(11.806)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	4.300
Principal element of lease payments		(190)	(205)
Net cash (to)/from financing activities		(190)	4.095
Net increase/(decrease) in cash and cash equivalents		44.380	(28.039)
Effect of exchange rate fluctuations on cash and cash equivalents		170	(580)
Cash and cash equivalents at the beginning of the year		197.133	225.752
Cash and cash equivalents at the end of the year	34	241.683	197.133
Non-cash investing activities			
Reduction of issued share capital utilised to write off accumulated losses	31	-	10.537
Reduction of issued share capital through Capital reduction reserve fund account	31	-	19.435
Conversion of non-redeemable capital account into ordinary share capital	31	-	4.000
		-	33.972

The notes on pages 53 to 152 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. INCORPORATION AND PRINCIPAL ACTIVITIES

The Cyprus Development Bank Public Company Limited (the “Bank”) was incorporated in the Republic of Cyprus in 1963. The Bank's business name is “cdbbank” and it is the parent company of the cdbbank Group.

The principal activities of the Bank, which remained unchanged from last year, are commercial banking operations.

The principal activities of the subsidiary company, Global Capital Securities and Financial Services Ltd, which remained the same as in the previous year, are portfolio management as well as the provision of financial advisory, investment banking and brokerage services.

The Russian subsidiary company, Joint Stock Company cdbbank, whose principal activities involved the provision of commercial banking operations was under voluntary wind up from October 2018 when an application for cancellation of its Banking license and its voluntary liquidation was submitted to the Central bank of Russian Federation. The winding up of the Russian subsidiary was successfully completed by September 2019 when JSC cdbbank was removed from the register of companies in Russia. Details are set out in Note 21 to financial statements.

The consolidated financial statements of the Group are available at the registered office of the Cyprus Development Bank Public Company Ltd and on the Bank’s website www.cdb.com.cy.

2. BASIS OF PREPARATION

2.1 Going concern

The Directors 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 financial statements. The Directors have considered the conditions that existed during 2020 and the developments up to the date of approval of these financial statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

The Group has developed a Financial Plan (the “Plan”) using conservative assumptions and taking into account the effects of COVID 19 on the operating environment as well as its impact on the clients of the Group. In view of the unprecedented economic conditions it was deemed appropriate to extend the planning period to five years in order to provide more visibility regarding the financial outcome of the business strategy. The Plan incorporates also the NPE Strategy and an appropriate Capital Plan of the Group which ensures compliance with the regulatory capital requirements throughout the assessment period.

Although the Cypriot economy is expected to return to growth in 2021 and throughout the forecasting period, uncertainties remain as to how the COVID 19 pandemic will evolve through 2021 and beyond which could be significantly different to other crises from a commercial, regulatory and risk perspective and may persist for a prolonged period. In view of this, the Plan adopted conservative staging and model PDs to project the level of NPEs and ECLs over the planning period. At the same time a sensitivity analysis of the main assumptions of the Plan, shows how possible changes in some of the underlying assumptions used in the projections could impact the projected financial performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

The Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group and the Bank to continue to operate 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 paid particular attention to the regulatory requirements relating to capital and liquidity as follows:

2.1.1 Funding and liquidity

The following items have been considered in relation to the Group's liquidity position:

- The Group enjoys a strong liquidity position and is compliant with all the regulatory liquidity ratios. The Liquidity Coverage Ratio (LCR) stood at 423% at 31 December 2020 and is well above the minimum requirement of 100%.
- Based on the projections of management it is expected that the Group will be compliant with these liquidity requirements for the period of the going concern assessment.
- The regulatory measures which aim to mitigate the impact of the COVID 19 outbreak.
- Strong liquidity position which enables Management to examine further reductions in the cost of deposits.

2.1.2 Capital

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group and for the Bank. The CBC requires the Group to maintain a prescribed capital adequacy ratio, which is the ratio of total eligible capital to total risk weighted assets, in accordance with Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms.

The minimum Pillar I total capital requirement is 8% which should be met by at least 6% Tier 1 (T1) capital of which 4,5% minimum Common Equity Tier 1 (CET 1) capital. The Group is also subject to additional capital requirements for risks which are not covered under Pillar 1 requirements. In February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, CBC determined the additional capital requirements to be met by CET 1 capital to be 5,20% of the Group's risk weighted assets (Decision No. 02/2017). On 10 December 2020, CBC in response to the extraordinary circumstances related to the COVID-19 pandemic, communicated to the Bank its final decision to amend Decision No. 2/2017 regarding the composition of the Pillar 2 additional own funds requirement not to be covered entirely by CET1 but it can be held instead in the form of 56,25% of CET1 capital and 75% of Tier 1 capital as a minimum. In addition to the total SREP capital requirement, the Group is also required to maintain a capital conservation buffer of 2,5%. For 2020 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (2019: 12,20%) and an overall capital adequacy ratio of 15,70% (2019: 15,70%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.2 Capital (continued)

The Group's CET1 and overall capital adequacy ratio as at 31 December 2020 stood at 14,81% and 16,52% respectively, being above the minimum regulatory requirement. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimise capital usage and maintain capital ratios above minimum requirements. The following items have been considered in relation to the Group's capital adequacy throughout the period of the going concern:

- The Common Equity Tier 1 (CET1) ratio and Overall Capital Ratio (OCR) at 31 December 2020 are higher than SREP requirements (Note 35.5). The business plan is based on maintaining a CET1 ratio of at least 13% over the entire period of the plan.
- The package of measures which were announced by the ECB, as a response to COVID-19 outbreak, in early 2020 to help to support the capital position of banks, and enable them to continue to provide financing support to the real economy and therefore mitigate the effects of the crisis. These measures (more details are provided below) increased the Group's capital base available to absorb potential losses due to the crisis. In addition, the early adoption of CRD V for the composition of the Pillar II Requirement provides flexibility regarding the Group's compliance with the minimum capital requirement of Pillar II. The measures announced by ECB were as follows:
  - In March 2020, the ECB announced that banks are temporarily allowed to operate below the level of Pillar II Guidance (P2G), the capital conservation buffer (CCB) and the countercyclical buffer. In July 2020, the ECB committed to allow banks to operate below the P2G and the combined buffer requirement until at least end of 2022, without automatically triggering supervisory actions.
  - In June 2020, in response to the COVID-19 pandemic, Regulation (EU) 2020/873 came into force, bringing forward some of the capital-relieving measures that were due to come into force at a later stage and introducing modifications as part of the wider efforts of competent authorities to provide the support necessary to the institutions. The main amendments affecting the Group's own funds relate to the acceleration of the implementation of the new SME discount factor under CRR II introduced in June 2020, instead of June 2021, extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1, allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets and phasing this in starting from 2022.
- The Management Body and Management of the Group remain focussed to implement the actions contemplated in the Financial Plan of the Group which ensures compliance with capital requirements throughout the period of assessment and which include among others the injection of capital in 2021 and 2022.
- The continued support of the Bank's shareholders and their intention to inject capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.3 Non-performing exposures (NPEs)

Effective management of the NPEs portfolio and monetization of the REO portfolio remains a top priority for the Group. In its NPE Strategy for 2021-2023 the Bank has identified a number of suitable organic and non-organic solutions that will allow it to reduce its NPEs to sustainable levels in the medium term. The implementation of the NPE strategy requires additional capital injection and the progress and speed of its implementation relies on the level of capital to be injected. The effects of a slower NPE strategy has been considered within the sensitivities and alternative scenarios run by the Group. The implementation of these actions is carefully monitored. At the same time, the Bank as a response to COVID 19 and with the aim to arrest any potential asset deterioration has introduced enhanced monitoring processes for managing early arrears.

2.1.4 Response to COVID-19 outbreak

The Group while it continued the implementation of its strategic objectives focused throughout the year in supporting its customers and colleagues during the COVID 19 crisis as well as in taking measures to safeguard its financial position from new and potentially hidden risks.

The Group revisited its plans for 2020 proactively focusing on providing the necessary financial support to its clients. At the same time, it implemented a business continuity plan specific to the pandemic crisis which allowed it to take all necessary health and safety measures with no disruption to customer service and daily operations. The management monitored closely the situation and responded proactively; as a result more than 90% of employees were able to work remotely in an effective and efficient control environment during the Lockdowns while branches continued to service customers safely and seamlessly.

The Group engaged actively with its customers, especially those operating in more vulnerable to the pandemic sectors of the economy, to identify and assess their needs and provide the required support, including extending the payment moratorium which was approved by the Parliament to all eligible clients that were evidently affected by the Pandemic. Clients' performance since the end of the payment moratorium on 31 December 2020 is encouraging. The Group remains committed to continue to provide support to its clients. Close monitoring of the credit quality of the loan portfolio continues and customers with early arrears are identified and offered solutions.

Detailed analysis of operating environment is presented in note 41 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the year ended 31 December 2020.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis, except from derivatives, investments classified at fair value through other comprehensive income and properties for own use which are measured at fair value. Stock of properties are measured at the lower of cost and net realisable value.

2.4 New and amended standards and Interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Conceptual Framework in IFRS standards

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.4 New and amended standards and Interpretations (continued)

IFRS 3: Business Combinations (amendments)

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

Amendments to IFRS 9, IAS 39 and IFRS 7 related to Interest Rate benchmark Reform (the Amendments)

Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency.

The IFRS amendments include several temporary reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform by allowing entities to assume the benchmark interest rate is not altered as a result of IBOR reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments mandatorily take effect from 1 January 2020, but early application was permitted.The amendments were endorsed by the EU in January 2020. The Group does not apply hedge accounting and has elected not to early adopt the interest rate benchmark reform amendments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.5 Standards and interpretations that are issued but not yet effective

2.5.1 Standards and Interpretations adopted by the EU

IFRS 16 "Leases" (Amendments): COVID-19-Related Rent Concessions

In response to the COVID-19 coronavirus pandemic, the IASB has issued amendments to IFRS 16 to allow lessees not to account for rent concessions (such as rent holidays and temporary rent reductions) as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The amendment does not affect lessors. The Group does not expect these amendments to have a material impact on its results and financial position.

IFRS 9 "Financial Instruments" (Amendments), IAS 39 "Financial Instruments: Recognition and Measurement" (Amendments) and IFRS 7 "Financial Instruments: Disclosures" (Amendments): Interest Rate Benchmark Reform – Phase 2

The objective of the amendments is to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS when changes are made to contractual cash flows or hedging relationships, as a result of the transition from an interbank offered rate (IBOR) benchmark rate to alternative benchmark rates, in the context of the ongoing risk-free rate reform (referred to as 'IBOR reform'). The Phase 2 amendments principally address the following issues:

- The amendments introduce a practical expedient if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate.
- The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting. For example, a company will not need to discontinue existing hedging relationships because of changes to hedge documentation required solely by IBOR reform. Therefore, when a hedged risk changes due to benchmark reform, a company may update the hedge documentation to reflect the new benchmark rate and the hedge may be able to continue without interruption. However, similar to the Phase 1 amendments, there is no exception from the measurement requirements that apply for the hedged items and hedging instruments under IFRS 9 or IAS 39. Once the new benchmark rate is in place, the hedged items and hedging instruments are remeasured based on the new rate and any hedge ineffectiveness will be recognised in profit or loss.
- Additional disclosure requirements were added to IFRS 7 with the objective of enabling users of financial statements to assess the nature and extent of risks arising from the IBOR reform to which an entity is exposed, and how it manages those risks. In addition, the disclosures should assist users in assessing an entity's progress in completing the transition to alternative benchmark rates, and how an entity is managing that transition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.5 Standards and interpretations that are issued but not yet effective (continued)

2.5.1 Standards and Interpretations adopted by the EU (continued)

IFRS 9 "Financial Instruments" (Amendments), IAS 39 "Financial Instruments: Recognition and Measurement" (Amendments) and IFRS 7 "Financial Instruments: Disclosures" (Amendments): Interest Rate Benchmark Reform – Phase 2 (continued)

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

2.5.2 Standards and Interpretations not adopted by the EU

IFRS 3 "Business Combinations" (Amendments), IAS 16 "Property, Plant and Equipment" (Amendments), IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (Amendments), Annual Improvements 2018-2020

The amendments to IFRS 3 update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The Group does not expect these amendments to have a material impact on its results and financial position. The amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. They are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. An entity will apply the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The Group does not expect these amendments to have a material impact on its results and financial position.

The amendments to IAS 37 specify which costs a company includes when assessing whether a contract will be loss-making. The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

Annual Improvements contain minor amendments to IFRS 1, IFRS 9, IAS 41 and the Illustrative Examples accompanying IFRS 16. The amendments to IFRS 1, IFRS 9, and IAS 41 are all effective for annual periods beginning on or after 1 January 2022, with earlier application permitted, whereas the amendment to IFRS 16 only regards an illustrative example. The Group does not expect these amendments to have a material impact on its results and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.5 Standards and interpretations that are issued but not yet effective (continued)

2.5.2 Standards and Interpretations not adopted by the EU (continued)

IAS 1 "Presentation of Financial Statements" (Amendments): Classification of Liabilities as Current or Non-current

IASB has amended IAS 1 to promote consistency in application and clarify the requirements on determining if a liability is current or non-current. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. The amendments are effective for or annual periods beginning on or after 1 January 2023, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

IFRS 10 "Consolidated Financial Statements" (Amendments) and IAS 28 "Investments in Associates and Joint Ventures" (Amendments): 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 (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. 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.

2.6 Fair value of financial assets and liabilities

The Group and the Bank have applied the new definition of fair value as set out in note 33. The change had no significant impact on the measurements of the Group's and the Bank's assets and liabilities, but the Group and the Bank have included new disclosures in the financial statements, which are required under IFRS 13.

Level 1: financial investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

2.7 Functional and presentation currency

The financial statements of the Group and of the Bank are for the year ended 31 December 2020 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus. The functional currency of the foreign subsidiary JSC cdbbank (whose voluntary wind-up was completed in September 2019) is Russian Roubles.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

2.8 Use of estimates and judgments

The preparation of financial statements in accordance with IFRSs requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The accounting policies which involve significant estimates and judgments are set out under note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in respect of items which are considered material for the results for the year and the reporting of the financial condition of the Group and the Bank, are stated below.

3.1 Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company, and of its subsidiary companies, which together are referred to as the "Group".

All inter-company transactions and balances and any unrealised income and expenses between the parent company and the subsidiary companies of the Group are eliminated on consolidation.

3.2 Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Group at the rates ruling at the date of the transaction. Other assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange ruling at the end of the year. Exchange differences arising from the above are dealt with in the income statement.

The income statement of the foreign subsidiary company is translated into Euro using the mid-rate of exchange of the year. The assets and liabilities of the foreign subsidiary are translated into Euro at the rate of exchange ruling at the end of the year. The exchange difference arising from the above is dealt with directly in exchange difference reserves.

3.3 Turnover

The Group's and the Bank's turnover comprises interest income, fee and commission income, foreign exchange gains, dividends and profits on disposal of equity investments, profit from disposal of stock of properties, fees from services rendered and other income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Interest income and interest expense

The Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount of financial assets, unless the asset is credit-impaired.

When a financial asset becomes credit-impaired and is therefore classified as Stage 3, interest income is calculated by applying the EIR to the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance. If the financial asset cures and is no longer credit impaired, the Group reverts to calculating interest income on the gross carrying amount. In such cases, the Group reverses the unwinding of the discount on the expected credit losses (ECL) through the 'Provisions for impairment" line in the Income Statement.

Interest expense on financial liabilities held at amortised cost is calculated using the EIR method which allocates interest over the expected life of the financial liabilities.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts though the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

3.5 Fee and commission income

The Group applies the IFRS 15, "Revenue from Contracts with Customers" five-step revenue recognition model to recognise commissions and fee income, under which income is recognised when control of goods and services is transferred, hence the contractual performance obligations to the customer has been satisfied.

As a first step, the Group identifies the contract with the customer and subsequently the performance obligation. The amount of income is measured on the basis of the contractually agreed transaction price and is allocated to the performance obligations defined in the contract. Income is recognised in profit or loss when the identified performance obligation has been satisfied.

Fee and commission expense is recognised in the income statement on an accruals basis, as the related services are performed.

3.6 Dividend

Dividend income is recognised when the right to receive payment is established.

3.7 Profit/(loss) on disposal of stock of property

Net profit/(loss) on disposal of stock of property is recognised in the income statement when the buyer accepts delivery and the control of property is transferred to the buyer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Retirement benefits to staff

The Bank operates a defined contributions plan for its permanent employees. This plan provides for employer contributions of 9% (2019: 9%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

3.9 Taxation

Provision for taxation is made in accordance with the tax legislation and tax rates applicable in Cyprus and the Russian Federation, where the Group carries on operations. Corporation tax in Cyprus is calculated at the rate of 12,5%. Corporation tax in the Russian Federation is calculated at the rate of 20%. Provision for deferred taxation is also made for all temporary differences between the carrying values of assets and liabilities for financial reporting purposes and their tax base. Deferred taxation is calculated using the tax rates that were applicable at the end of the year. Any deferred tax assets arising from deductible temporary differences are recognised only to the extent that it is expected that taxable profits will be available in the future. Taxation is recognised in the income statement unless it relates to items recognised directly in equity or in the statement of comprehensive income. Tax assets and liabilities are offset if they relate to taxes imposed by the same tax authority provided it allows such settlements and provided the intention of the Group is to either settle the net amount or realise the asset and settle the obligation simultaneously.

3.10 Special Levy

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

3.11 Financial instruments

The Group applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

i. Classification

Business model assessment

The Group classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories:
- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

The business model assessment determines how the Group manages a group of assets to generate cash flows. That is, whether the Group's objective is solely to collect contractual cash flows from the assets, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which are managed similarly rather than at an individual instruments level.

Accordingly, in making the above assessment, the Group will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

ii. Measurement categories

Financial Assets measured at Amortised Cost (AC)

The Group classifies and measures a financial asset at AC only if both of the following conditions are met and is not designated as a FVTPL:
a) the financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model); and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets that meet these criteria are measured initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortised cost, using the EIR method. Interest income, realised gains and losses on de-recognition and changes in expected credit losses from assets classified at AC, are included in the income statement.

The classification relates to cash and balances with Central Bank, placements with other banks, debt instruments and loans and advances to customers that pass the SPPI test.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii. Measurement categories (continued)

Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI)

The Group classifies and measures a financial asset at FVOCI only if both of the following conditions are met and is not designated as a FVTPL:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model); and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition FVOCI debt instruments are re-measured at fair value through OCI except for interest income, related foreign exchange gains or losses and expected credit losses which are recognised in the income statement. Cumulative gains and losses previously recognised in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

The Group may make an irrevocable election to designate an equity instrument that is not held for trading at FVOCI. This designation, if elected, is made at initial recognition and on an instrument-by instrument basis. Gains and losses on these instruments, including when derecognised, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

Financial Assets measured at Fair Value through Profit and Loss (FVTPL)

A financial asset that has been originated, acquired or incurred principally for the purpose of trading or that is not managed within a "hold to collect" or a "hold to collect and sell" business model shall be measured at FVTPL. Additionally, instruments for which the contractual cash flows do not meet the SPPI assessment must be measured at FVTPL even if they are managed within a business model whose objective is "hold to collect" or "hold to collect and sell". Upon subsequent measurement of FVTPL a gain or loss on financial asset shall be recognised in profit or loss.

Derivatives

Derivatives include mainly forward exchange rate contracts and currency swaps. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Financial liabilities

Financial liabilities include deposits by banks, customer deposits and other customer accounts. Financial liabilities are measured at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

iii. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iv. Modified financial assets

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 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. Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. A series of factors of both qualitative and quantitative nature are considered when making such judgements on modifications in the contractual cash flows, including change in the currency, change in counterparty, introduction of substantially modified terms, changes in the legal framework and other.

Where the contractual terms of a financial instrument have been modified, and this does not result in derecognition, a modification gain or loss is recognised in the income statement representing the difference between the original cashflows and the modified cash flows, discounted at the effective interest rate. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. If the modification is credit related, such as forbearance or where the Group has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired (stage 3). A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired, as defined in Note 3.12, 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 in its lifetime PD, days past due and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

3.12 Impairment of financial assets

The estimation of expected credit loss (ECL) requires significant judgement, estimates, and assumptions in considering information for current as well as future events and conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

The impairment model applies to financial assets that are not measured at FVTPL including placements and balances with other banks, loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Under IFRS 9 no impairment losses need to be recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). IFRS 9 requires the classification of facilities/customers in three stages, according to the increases in credit risk level, considering certain criteria:

Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition. The Group recognises a credit loss allowance at an amount equal to 12 month expected credit losses.

Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit impaired. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit impaired. The Bank aligned Stage 3 classification with the NPE classification, consistent with the definition used for internal credit risk management purposes. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Upon initial recognition of instruments in scope of the impairment principles, the Group will record a loss allowance equal to 12-month ECL, being the ECL that results from default events that are possible within the next twelve months unless assets are considered as Purchased or Originated as Credit Impaired (POCI). When the criteria for stage 2 classification are no longer met, and the financial asset is not credit impaired, it will be reclassified to stage 1. In addition, subsequent transfers from stage 3 to stage 2 will take place when the financial asset ceases to be credit impaired as defined further below.

The loss allowance for POCI financial assets will always be measured at an amount equal to lifetime ECL. POCI financial assets include assets purchased at a deep discount and substantially modified assets arising from de-recognition of the original asset that are considered originated credit impaired. POCI financial assets remain a separate category until derecognition and are classified either as stage 3 or stage 2. For POCI financial assets, cumulative changes in lifetime ECLs since initial recognition are recognised in the loss allowance.

Interest revenue recognition

The Group will recognise interest income of financial assets at stage 1 or 2, by applying the effective interest rate (EIR) on their gross carrying amount, while for financial assets at stage 3 by applying EIR on their net carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Significant increase in credit risk

As noted above financial assets that experience a significant increase in credit risk since initial recognition will be classified under stage 2 and the loss allowance calculation will change from 12 month ECLs to lifetime ECLs. In assessing whether a financial asset has experienced a significant increase in credit risk since initial recognition, the Group uses a combination of qualitative and backstop criteria including:

- The credit facility presents arrears over 30 days within the last 12 months.
- The credit facility was forborne, as per the EBA definition over the last 12 months.
- Individual assessment of significant increase in credit risk for significant exposures to ensure that there was not a significant decline in the internal credit rating compared to the one at origination (for facilities where credit rating at origination is available).

Backstop

As required by IFRS 9, the Group considers as a backstop criterion that a significant increase in credit risk occurs when contractual payments are more than 30 days past due (past due materiality is applied). The materiality levels applied are set in accordance with the CBC Directives.

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

IFRS 9 low credit risk exception has been adopted by the Group for debt security instruments, balances with banks and balances with central banks that are assigned an investment grade rating by an external credit rating agency. For these exposures the Group considers that significant deterioration in credit risk has occurred in the event of two notches or more downgrade of the credit rating at initial recognition (unless the credit rating remains within the investment grade category).

Credit-impaired exposures

As noted above credit-impaired exposures are allocated to stage 3 and lifetime ECLs are estimated. The Group considers as credit-impaired and hence in default all non-performing exposures (NPE) as per regulatory guidance. According to the European Banking Authority (EBA) standards, NPEs are defined as those exposures that satisfy one of the following conditions:

- 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.
- 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.
- Material exposures as set by the Central Bank of Cyprus, which are more than 90 days past due.
- Performing forborne exposures under probation, after declassification from NPE, extended additional forbearance measures.
- Performing forborne exposures under probation, after declassification from NPE, that present more than 30 days past due within the probation period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Credit-impaired exposures (continued)

When the exit criteria from the NPE status defined in the EBA standards are met and the exposure ceases to be an NPE, it is transferred out of stage 3. At such time if the conditions for stage 2 classification are met the exposure is transferred to stage 2 otherwise it is classified as stage 1.

Debt Securities, loans and advances to banks and balances with central banks

Debt Securities, loans and advances to 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 for a period of 90 consecutive days. In addition, a number of other criteria are considered to determine whether there has been a significant deterioration that could result in unlikeliness to pay.

Measurement of expected credit losses

As described above, if the credit risk of a financial instrument that is not classified as POCI has not increased significantly at the reporting date compared to its origination date, the loss allowance will be measured at an amount equal to 12-month ECLs. The 12-month ECLs represent a portion of lifetime losses that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months.

In cases where a significant increase in credit risk on a financial instrument has been identified at the reporting date since initial recognition date, the measurement of ECLs will be conducted on a lifetime basis. Lifetime ECLs represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.

The measurement of ECLs will be an estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions is considered.

For the purposes of measuring ECL, the Group estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources including collateral and other credit enhancements that are part of the contractual terms and are not recognised separately. In the case of a collateralised financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable.

ECLs on financial guarantee contracts are estimated as the difference between the expected payments to reimburse the holder of the guarantee less any amounts that the Group expects to recover.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Measurement of expected credit losses (continued)

The Group calculates ECLs either on an individual basis or a collective basis depending on the nature of the underlying portfolio of exposures. ECLs on individually large credit-impaired loans, above pre-defined materiality thresholds set in accordance with the Group's risk management policy are measured individually. This incorporates borrower and collateral specific information, collective historical experience of losses and forward-looking macroeconomic information. All customer exposures that are not individually assessed, are assessed on a collective basis. For this purpose, the exposures are grouped into segments with similar risk characteristics/ behaviour.

ECL Key inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF). Generally, the Group derives these parameters from internally developed statistical models and observed point-in-time and historical data. ECLs are calculated based on three-weighted scenarios.

The PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime. The group calculates the PDs using internal statistical models for different segments. The estimation of PDs is based on point-in-time unbiased PDs that are derived from TTC PDs through the application of a scaling factor that reflects the current economic conditions and incorporates forward-looking information and macroeconomic inputs. For certain segments the PDs are estimated at the debtor level while for retail portfolios are estimated at the facility level.

EAD represents the exposure that the Group expects to be owed at the time of default. In estimating the EAD of each exposure at each point in time for the period over which the ECL will be estimated, historical observations and forward looking forecasts to reflect payments or overpayments of principal and interest and any potential drawdowns on lending commitments are utilised. EAD estimation is different for the following categories: term exposures, revolving exposures, credit-impaired exposures and guarantees and trade finance products. For term exposures the contractual term of the exposure is considered to reflect repayments of principal and interest. For revolving exposures the projected EAD is the carrying amount plus the credit conversion factor applied to the undrawn amount. For CCFs the factors provided in European regulation 575/2013 are used. For credit-impaired exposures, the EAD is equal to the on-balance sheet amount as at the reporting date. For guarantees and trade finance products the CCFs for unutilised commitments are utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

ECL Key inputs (continued)

LGD represents the Group's expectation of the extent of loss if a default occurs at a given time and is the difference between the contractual cash flows due and those that the Group expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The LGD model structure considers two outcomes in the event of default: curing and non-curing. Probability of curing is estimated based on historical observations for different segments based on time in default and risk status. In the event of non-curing LGD estimates are based on recovery expectation under different recovery strategies such as cash recoveries from sources other than collateral realisations. In collectively assessed exposures a minimum LGD is imposed.

Forward-looking inputs

The Group incorporates forward-looking information when measuring ECL. This involves the use of external forecasts to formulate both a 'baseline' view of key economic variables (e.g. GDP Growth, unemployment, house prices) as well as two additional economic scenarios representing a pessimistic and an optimistic macroeconomic outcome to estimate ECLs by linking economic variables to default and loss rates. For PDs this is achieved through regression equations while for LGDs forward-looking information is factored in through the evolution of property indices. The ECLs that result under each scenario are weighted to achieve an unbiased estimate of ECL. The weights applied are 50% for the baseline scenario and 25% for the pessimistic and optimistic scenarios, respectively.

The table below shows the macroeconomic variables for each scenario and the respective scenario weights:

Cyprus Economy – Macroeconomic Parameters

Scenarios			2020	2021	2022	2023	2024
Optimistic	Real GDP change	%	-5,90	6,90	4,50	5,00	2,50
	Unemployment rate	%	7,80	6,40	5,70	5,50	5,30
	House Price index change	%	-2,40	-1,80	2,00	3,50	5,80
Baseline	Real GDP change	%	-6,80	3,50	5,00	5,20	2,50
	Unemployment rate	%	8,10	7,30	6,10	5,50	5,30
	House Price index change	%	-2,70	-3,50	0,40	3,50	5,80
Pessimistic	Real GDP change	%	-8,40	-1,60	4,60	6,00	2,90
	Unemployment rate	%	8,50	9,10	8,00	6,80	6,60
	House Price index change	%	-3,50	-9,90	-6,50	0,80	7,20

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Overlays in the context of COVID-19

Assessing the data and measurement limitations arising from the extraordinary impact of COVID-19, it was considered appropriate to address them through management overlays in relation to the significant increase in credit risk and PD. The Bank included an additional criterion for transfer to Stage 2, to take into consideration the moratoria on interest and principal payments, and transferred clients that requested restructuring following the end of the moratorium to Stage 2, provided that the criteria for transfer to Stage 3 were not applicable. A PD overlay was applied in order to avoid extreme values in the model predictions taking into consideration the extraordinary values of macroeconomic variables, the impact of government's support programmes, the impact of moratoria on payments and historical observed default rates of the Bank's loan portfolio.

3.13 Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

3.14 Write-offs

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such case, financial assets are written off either partially or in full. Write off refers to both contractual and non-contractual write offs. 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 "Provisions for impairment".

3.15 Subsidiary companies

Subsidiary companies are investees controlled by the Group. The Group "controls" an investee if it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The subsidiary companies are consolidated using the acquisition method of accounting. 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 statement of financial position. The investments in the subsidiary companies are fully eliminated on consolidation in the consolidated financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Subsidiary companies (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

Investment in the subsidiary company Global Capital Limited in the Bank's separate financial statements is stated at its assessed fair value. The Group designates investment in Global Capital Limited at FVOCI. Any gains or losses on the subsidiary, are recorded in OCI and are not subsequently reclassified to the income statement upon derecognition. Dividends received are recorded in the income statement.

Investments in subsidiaries that are set up with the purpose of managing the properties under debt for asset swaps (SPEs) are carried at cost less impairment.

3.16 Cash and cash equivalents

Cash and cash equivalents consist of cash, non-obligatory balances with central banks, deposits with banks and other securities that are highly liquid and readily convertible into known amounts of cash or are repayable within three months from the date of their acquisition.

3.17 Premises and equipment

Freehold premises are used in the operations of the Group and are stated at valuation on the basis of open market value for existing use as assessed by independent professional valuers less accumulated depreciation. Revaluation surpluses or deficits are credited or debited to the revaluation reserve. Any deficit not covered by accumulated revaluation surpluses in the revaluation reserve for the specific asset, is written off to the income statement.

Equipment is measured at cost less accumulated depreciation. Material expenses which add future economic benefit are capitalised whereas other expenses are written off to the income statement.

Depreciation on premises is provided on the straight-line method in equal annual instalments over a period of 33 years. No depreciation is provided on land.

Depreciation on equipment is provided on the straight-line method in equal annual instalments over their estimated useful life, which ranges from five to ten years.

On disposal of premises and equipment, the difference between the net proceeds and the net book value is transferred to the income statement. Any related balance in the revaluation reserve is transferred to revenue reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Leased assets

The Group as a lessee

The Group assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to control the use of an identified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Group is a lessee and the lease is deemed in scope, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate (IBR) applicable. Subsequently the lease liability is adjusted for interest and lease payments. The liability is recognised in “Accruals and other liabilities”. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognised in “Premises and equipment”. The lease term includes any extension options contained in the contract that the Group is reasonably certain it will exercise.

The Group subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognised in “Depreciation”, and interest on the lease liability is recognised in “Interest expense”.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The judgements in determining lease balances are the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. On initial recognition, the Group considers the term remaining on the lease to determine whether it is reasonably certain that a contractual right to extend a lease will be exercised.

The estimates were the determination of incremental borrowing rates. The Group uses internal quotes to estimate the cost of secured borrowing. Internal quotes are compared to third party quotes to ensure they are reflective of prevailing market conditions.

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’.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Leased assets (continued)

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.19 Intangible assets

Intangible assets include computer software.

Computer software is stated at cost less accumulated depreciation. Depreciation on computer software is provided on the straight-line method in equal annual instalments over their estimated useful life, which ranges from three to five years.

Maintenance expenses of computer software are written off to the income statement in the year in which they are incurred.

3.20 Stock of properties

The Bank in its normal course of business acquires properties in exchange of debt, which are held either directly or by special purpose entities (SPEs) set up and controlled by the Bank for the sole purpose of managing these properties with an intention to be disposed of.

Stock of properties is recognised in the statement of financial position and is included under “receivables and other assets”, reflecting the substance of these transactions. The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of properties is measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the income statement in the period in which the write down occurs. Profit or loss from disposal of stock of properties held for sale, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

3.21 Client deposits

Client deposits are initially measured at the fair value of the consideration received, which equals the amount deposited by the client minus incremental direct transaction costs. Subsequently, client deposits are measured at their amortised cost using the effective interest rate method.

3.22 Loan capital

Loan capital issued by the Bank is initially recorded at fair value, which equals the amount received less transaction costs directly attributable to the issue, and subsequently is measured at its amortised cost using the effective interest rate method.

3.23 Share capital

The Bank's own shares are stated as equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Derivatives

Derivatives consist of forward exchange rate contracts and foreign exchange swaps.

Derivatives are initially recorded at cost and then revalued at their assessed fair value. Changes in the fair value of derivatives are recognised in the income statement. The assessed fair value is estimated on the basis of current prices and of discounted cash flows. Derivatives are classified as assets when their value is positive and as liabilities when their fair value is negative.

All derivatives are recorded as trading derivatives and adjustments to their assessed fair value are included in the income statement under net foreign exchange gains.

3.25 Guarantees

Guarantees issued comprise performance and tender guarantees and other letters of guarantee given to clients and represent irrevocable obligations of the Bank to pay a specific amount to the beneficiary only if the terms of the specific contractual obligation are not adhered to.

Liabilities arising from guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

3.26 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The loss from impairment of goodwill is not reversible. The loss from impairment of other non-financial assets is reversible only to the extent that the carrying value does not exceed net carrying value that the non-financial asset would have if the impairment loss was not recognised.

3.27 Discontinued operations

A discontinued operation is a component of the Group’s business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Discontinued operations (continued)

- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Net profit or loss from discontinued operations includes the net total of operating profit and loss after tax from discontinued operations.

3.28 Assets held for sale

The Group classifies assets as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Bank is committed to a sale plan involving loss of control of a subsidiary, the total assets and liabilities of that subsidiary are classified as held for sale, regardless of whether non-controlling interest in its former subsidiary after the sale is retained. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and gains or losses from subsequent measurement are recognised in the income statement. A gain is only recognised to the extent that it is not in excess of the cumulative impairment loss that has been recognised.

The Group currently does not classify any asset as held-for-sale.

3.29 Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Loans and advances at amortised cost	9.997	11.377	10.898	11.305
Balances with banks at amortised cost	164	582	162	582
Debt securities	466	960	464	958
	10.627	12.919	11.524	12.845

Interest from loans and advances includes interest on net carrying amount of impaired loans and advances amounting to €3.369 thousand (31 December 2019: €3.300 thousand).

When a financial asset becomes credit impaired then interest is recognised on the net carrying amount of the financial asset. The policy applicable for interest recognition is disclosed in note 3 to the financial statements.

5. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Bank borrowings	20	22	20	22
Client deposits	109	1.314	109	1.314
Balances with banks	645	843	641	837
Interest expense on lease liability	25	29	23	29
	799	2.208	793	2.202

The total interest expense is derived from financial liabilities measured at amortised cost.

6. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Credit related fees and commissions	825	680	825	680
Fund transfer commissions	1.225	1.415	1.225	1.415
Other banking fees and commissions	1.888	1.460	1.554	949
	3.938	3.555	3.604	3.044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	282	352	282	352
Credit related fees and commissions	41	-	41	-
Brokerage fees and commissions	61	47	-	-
	384	399	323	352

8. NET FOREIGN EXCHANGE GAINS

Net foreign exchange gains comprise gains less losses related to the conversion of monetary assets and liabilities in foreign currency at the reporting date and realised exchange gains/(losses) from transactions in foreign currency settled during the year.

9. OTHER INCOME

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Profit from disposal of stock of properties	1.820	1.500	30	1.500
Profit from disposal of debt securities at FVOCI	44	1.044	-	1.037
Other income	89	31	24	24
	1.953	2.575	54	2.561

10. STAFF COSTS

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Salaries	5.943	5.634	5.709	5.337
Employer's contributions	952	807	919	801
Other staff benefits	17	21	17	21
Cost of retirement benefits	475	434	462	431
Termination benefits	400	170	400	170
	7.787	7.066	7.507	6.760

The number of persons employed by the Group as at 31 December 2020 was 142 (31 December 2019: 143) and by the Bank 136 (31 December 2019: 134).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2019: 9%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement.

From October 2020 onwards the employees of Global Capital Securities and Financial Services Ltd are participating in the plan with employer contributions of 7% and employee contributions of 3%-10% on the employees' gross salaries. The company's contributions are charged to the income statement.

The plan is managed by a Committee appointed by the members.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Consultancy and legal fees	665	866	623	856
Regulatory fees	338	330	323	298
Repairs and maintenance	829	747	822	746
Marketing, subscriptions and donations	343	390	320	362
Utilities	265	275	255	265
Other operating expenses	1.102	1.054	1.059	863
	3.542	3.662	3.402	3.390

12. (LOSS)/PROFIT BEFORE TAX

The (loss)/profit before tax for the year is stated after charging the following:

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees (note 39)	250	202	250	202
Expenses	7	7	7	7
Independent auditors' remuneration:				
Audit of annual accounts	100	103	70	70
Audit fees previous years	7	15	7	5
Other non-audit services	55	61	55	61
Other assurance services	13	35	13	35
Loss on disposal/write off of equipment	-	6	-	1
Depreciation on:				
Premises and equipment (note 22)	632	659	608	655
Computer software (note 23)	408	391	397	384
Provisions for impairment:				
Loans and advances	5.346	2.468	5.346	2.596
Receivables and other assets	(15)	3	(15)	3
Financial guarantees and commitments (note 28)	198	40	198	40
Pending litigations (note 28)	-	(60)	-	(60)
Debt securities at FVOCI (note 19)	(9)	(71)	(9)	(71)
Debt securities at amortised cost (note 19)	67	-	67	-
Balances with Group companies	-	-	(61)	3
Cash and cash equivalents	(1)	(38)	(1)	(38)
Impairment losses on stock of properties (note 24)	598	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. TAXATION

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Deferred tax (note 27)	27	(35)	27	21
Special contribution to the defence fund	1	1	-	-
Special levy on client deposits	632	718	632	718
	660	684	659	739

The Bank is subject to income tax on taxable profits at the rate of 12,5%. As from 2012 a limitation of five years was introduced in the carried forward losses, under which losses are allowed to be carried forward for offsetting future taxable income, for a period of five years from the year to which the profits relate. Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

The special levy on deposits is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly instalments. The government levy on client deposits for 2020 amounted to €632 thousand (2019: €718 thousand). Following an amendment of the "Special Levy on Credit Institutions 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 2020 special tax on client deposits is net of €101 thousand (2019: €64 thousand) relating to the contribution of the Bank to the Single Resolution Fund.

Reconciliation of taxation based on taxable income and taxation based on accounting profits:

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Accounting (loss)/profit before tax	(2.694)	162	(2.821)	3.021
Corporation tax on the loss for the year at the rates applicable in Cyprus	(337)	20	(353)	378
Tax effect of:				
Expenses not deductible for tax purposes	382	517	364	152
Allowances and income not subject to tax	(165)	(233)	(151)	(233)
Effect of tax losses brought forward	-	(304)	-	(297)
Deferred tax asset on tax losses not recognised	120	-	140	-
Corporation tax	-	-	-	-
Deferred tax	27	(35)	27	21
Special contribution to the defence fund	1	1	-	-
Special levy on client deposits	632	718	632	718
Charge for the year	660	684	659	739

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. LOSS AFTER TAX FROM DISCONTINUED OPERATIONS

THE GROUP

In October 2018 an application was submitted to the Central Bank of Russian Federation (CBRF) for the voluntary winding-up of the Bank's Russian subsidiary JSC cdbbank. The application for voluntary wind-up and cancellation of Banking License was approved by CBRF in December 2018. Following the approval of the application, actions were taken by the Bank for the winding up of operations including amongst others the disposal of the subsidiary's assets and repayment of deposits by 31 May 2019. In June 2019 the final Liquidation Accounts of JSC cdbbank were submitted for approval to the CBRF and in July 2019 CBRF provided its final approval for the liquidation of JSC cdbbank and cancelled its banking licence. In September 2019 JSC Cdbbank was removed from the register of companies in Russia. Note 21 is also relevant.

The discontinued classification is considered appropriate because operations of JSC cdbbank Russia constitute a separate geographical segment.

The total effect of the Group's discontinued operations in Russia is presented below:

Discontinued Operations	2019 €'000
Turnover	29
Net interest income	29
Total net income	29
Total expenses	(289)
Provisions for impairment	(139)
Loss before tax	(399)
Tax	-
Loss after tax	(399)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

	THE GROUP 2020	THE GROUP 2019	THE BANK 2020	THE BANK 2019
Basic and diluted (loss)/profit per share				
(Loss)/profit attributable to the owners of the parent company (€'000)	(3.343)	(940)	(3.480)	2.282
Weighted average number of shares in issue during the year ('000)	43.276	36.620	43.276	36.620
Basic and fully diluted (loss)/profit per share (cent)	(7,72)	(2,57)	(8,04)	6,23

	THE GROUP 2020	THE GROUP 2019	THE BANK 2020	THE BANK 2019
Basic and diluted (loss)/profit per share from continuing operations				
(Loss)/profit attributable to the owners of the parent company (€'000)	(3.343)	(541)	(3.480)	2.282
Weighted average number of shares in issue during the year ('000)	43.276	36.620	43.276	36.620
Basic and fully diluted (loss)/profit per share (cent)	(7,72)	(1,48)	(8,04)	6,23

	THE GROUP 2020	THE GROUP 2019	THE BANK 2020	THE BANK 2019
Basic and diluted loss per share from discontinued operations				
Loss attributable to the owners of the parent company (€'000)	-	(399)	-	-
Weighted average number of shares in issue during the year ('000)	-	36.620	-	-
Basic and fully diluted loss per share (cent)	-	(1,09)	-	-

	THE GROUP AND THE BANK 2020 '000	THE GROUP AND THE BANK 2019 '000
Weighted average number of ordinary shares in issue		
Issued ordinary shares at 1 January ('000)	43.276	25.961
Effect of shares issued/reduced in March 2019 - net ('000)	-	7.820
Effect of shares issued in June 2019 ('000)	-	1.677
Effect of shares issued in September 2019 ('000)	-	1.162
Weighted average number of shares in issue during the year ('000)	43.276	36.620

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Cash	807	1.018	807	1.018
Balances with central banks	186.121	179.675	186.121	179.675
	186.928	180.693	186.928	180.693
Balances with other banks	59.719	21.664	59.635	21.384
Stage 1 – 12 month expected credit losses	-	(1)	-	(1)
	59.719	21.663	59.635	21.383

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.880 thousand (2019: €4.868 thousand) for the Group and the Bank.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in note 35 to the financial statements.

17. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2020	2019
	€'000	€'000
Loans and advances	289.160	280.813
Impairment losses individually assessed	(58.020)	(50.395)
Impairment losses collectively assessed	(3.905)	(2.720)
	227.235	227.698

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 35 to the financial statements.

An analysis of the movement of gross loans and advances to customers according to stages, of the Group and the Bank is presented in the table below:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. LOANS AND ADVANCES (continued)

THE GROUP AND THE BANK	2020				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total **€'000**
1 January	126.877	32.633	102.013	19.290	**280.813**
Transfer from Stage 1 to Stage 2	(24.480)	24.480	-	-	**-**
Transfer from Stage 1 to Stage 3	(299)	-	299	-	**-**
Transfer from Stage 2 to Stage 3	-	(201)	201	-	**-**
Transfer from Stage 3 to Stage 2	-	16	(16)	-	**-**
Transfer from Stage 2 to Stage 1	2.717	(2.717)	-	-	**-**
Transfer from Stage 3 to Stage 1	42	-	(42)	-	**-**
Net movement during the period	2.065	4.256	1.673	353	**8.347**
31 December	106.922	58.467	104.128	19.643	**289.160**

THE GROUP AND THE BANK	2019				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total **€'000**
1 January	107.055	71.566	114.524	19.879	**313.024**
Transfer from Stage 1 to Stage 2	(4.810)	4.810	-	-	**-**
Transfer from Stage 1 to Stage 3	(182)	-	182	-	**-**
Transfer from Stage 2 to Stage 3	-	(16.988)	16.988	-	**-**
Transfer from Stage 3 to Stage 2	-	1.805	(1.805)	-	**-**
Transfer from Stage 2 to Stage 1	24.271	(24.271)	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Net movement during the period	543	(4.289)	(27.876)	(589)	**(32.211)**
31 December	126.877	32.633	102.013	19.290	**280.813**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	6.085	9.794	6.085	8.058
Disposals	(6.083)	(3.709)	(6.083)	(1.973)
Balance 31 December	2	6.085	2	6.085
Permanent diminution				
Balance 1 January	(6.063)	(9.180)	(6.063)	(7.711)
Disposals	6.063	3.117	6.063	1.648
Balance 31 December	-	(6.063)	-	(6.063)
Revaluation at fair value				
Balance 1 January	828	382	828	326
Disposals	(701)	(270)	(701)	(205)
(Decrease)/increase in fair value	(129)	716	(129)	707
Balance 31 December	(2)	828	(2)	828
Balance 31 December at fair value	-	850	-	850

Investments in equities as at 31 December 2019 relate to investments in Cyprus companies listed on the Cyprus Stock Exchange and are classified as investment at fair value through other comprehensive income.

Additional analysis and information regarding market risk are set out in note 35 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. INVESTMENTS IN DEBT SECURITIES

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Securities at amortised cost				
Sovereigns	76.704	-	76.704	-
	76.704	-	76.704	-
Securities at fair value through other comprehensive income				
Sovereigns	5.573	91.383	5.573	91.133
EU and international organisations	-	3.573	-	3.573
Credit institutions	-	895	-	895
	5.573	95.851	5.573	95.601
	82.277	95.851	82.277	95.601

All debt securities at FVOCI and at amortised cost are listed.

The movement of debt securities was as follows:

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Amortised cost				
Balance at 1 January	-	-	-	-
Acquisitions	76.695	-	76.695	-
Foreign exchange difference	76	-	76	-
	76.771	-	76.771	-
Stage 1 - 12 month expected credit losses	(67)	-	(67)	-
Balance 31 December	76.704	-	76.704	-

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Fair Value through OCI				
Balance at 1 January	95.872	79.714	95.622	79.714
Acquisitions	-	188.202	-	187.970
Disposals	(273)	(40.166)	-	(40.166)
Maturities	(89.789)	(131.195)	(89.789)	(131.195)
Amortisation of discounts/premiums and interest	(273)	(2.283)	(271)	(2.282)
Foreign exchange difference	99	1.091	98	1.090
Mark to market valuation	(51)	509	(75)	491
	5.585	95.872	5.585	95.622
Stage 1 - 12 month expected credit losses	(12)	(21)	(12)	(21)
Balance 31 December	5.573	95.851	5.573	95.601

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. INVESTMENTS IN DEBT SECURITIES (continued)

Movement of Expected credit losses

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Balance 1 January	21	92	21	92
Stage 1 – 12 month expected credit losses FVOCI (note 12)	(9)	(71)	(9)	(71)
Stage 1 – 12 month expected credit losses amortised cost (note 12)	67	-	67	-
Balance 31 December	79	21	79	21

Additional analysis and information regarding market risk are set out in note 35 to the financial statements.

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES

THE BANK

The companies included in the consolidated and standalone financial statements and their activities are:

	Shareholding		Activities
	2020	2019	
In Cyprus:	%	%	
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services

At 31 December 2020 the Bank had 100% shareholding in the Special Purpose Entity companies (SPEs) listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts. LLC Cyproperties is a company registered in the Russian Federation, with assets (loans and properties) assigned from JSC cdbbank (note 21).

Cyprus registered companies

- Pekito Holdings Limited
- Tsemberio Holding Limited
- Glumar Limited
- Welbon Limited
- Metrore Properties Limited
- Jekelani Holding Limited
- Figalas Limited
- Primesky Limited

Russian registered company

- LLC Cyproperties

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Global Capital Limited

Global Capital Limited is the parent company of two companies that are registered and operate in Cyprus. The companies of the group are:

	Shareholding		Activities
	2020	2019	
	%	%	
Global Capital Securities and Financial Services Limited	99,99	99,99	Portfolio management, provision of financial advisory services and brokerage services
Global Capital Finance Limited	100,00	100,00	Inactive

The Bank's exposure in Global Capital Limited is shown below:

	2020	2019
	€'000	€'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(1.278)	(1.186)
Fair value of investment 31 December	**1.003**	**1.095**
Amounts due to subsidiary company	(729)	(439)
Amounts due by subsidiary company	101	152
Total exposure in Global Capital Limited	**375**	**808**
Income for the year	24	25
Expenses for the year	73	121

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Special Purpose Entities (SPEs)

The Bank’s exposure in Special Purpose Entities is shown below:

	2020 €'000	2019 €'000
Cost of investments 1 January	7	4
Additions - new subsidiaries set up	3	3
Disposals - sale of subsidiaries	(1)	-
Cost of investments 31 December	**9**	**7**
Amounts due to SPEs	(1.687)	(173)
Amounts due by SPEs		
Gross amount due by SPEs	18.289	22.922
Provision for impairment	(3.204)	(3.966)
	15.085	18.956
Total exposure in SPEs	**13.407**	**18.790**
Income for the year	-	-
Expenses for the year	-	-
Total exposure in subsidiary companies	**13.782**	**19.598**

Group's policy applied for recognition of income on loans to SPEs and provisions for impairment is in line with the loans and advances policy as disclosed in note 3 to the financial statements.

The assumptions and methodology underlying the calculation of fair value of Global Capital Limited are disclosed in note 33 to the financial statements.

Movement in fair value of Global Capital Limited:

	2020 €'000	2019 €'000
Fair value 1 January	1.095	971
Adjustment to assessed fair value	(92)	124
Fair value of investment 31 December	**1.003**	**1.095**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. SUBSIDIARY COMPANY UNDER VOLUNTARY WIND-UP

THE BANK

Shareholding interest in JSC cdbbank

In line to its stated strategy of disengaging from its Russian operations, CDB proceeded back in October 2018, with an application to Central Bank of Russian Federation (CBRF) for the voluntary wind-up of JSC cdbbank which was approved in December 2018. The wind-up was successfully completed in 2019 as follows:

- April 2019: CBRF provided an Interim Approval for the liquidation of JSC cdbbank;
- May 2019: All liabilities of IBK, including client deposits, were repaid and within the same month the Bank received from JSC cdbbank the amount of €2,5m for settlement of the subordinated loan which was extended to the Russian subsidiary;
- July 2019: CBRF approved the Final Liquidation Accounts of JSC cdbbank and within the same month the amount of €1,2m (RUB87m), representing part of the Bank's investment in the Russian subsidiary was repatriated.
- September 2019: JSC cdbbank was removed from the register of companies in Russia.

Note 14 is also relevant.

The Bank's exposure in JSC cdbbank is shown below:

	2019 €'000
Cost of investment 1 January	6.442
Capital repatriated upon completion of voluntary wind up	(1.232)
	5.210
Exchange differences	(2.519)
	2.691
Adjustment to assessed fair value	(2.691)
Assessed fair value of investment	**-**
Amounts due to subsidiary company	-
Amounts due by subsidiary company	-
Balance 31 December	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. PREMISES AND EQUIPMENT

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2020				
Cost or valuation				
Balance 1 January	6.305	3.055	1.060	10.420
Additions	24	283	-	307
Revaluation	24	-	-	24
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU	-	-	61	61
Balance 31 December	5.997	3.338	1.121	10.456
Depreciation				
Balance 1 January	696	2.532	213	3.441
Charge for the year	143	254	235	632
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU	-	-	(190)	(190)
Balance 31 December	483	2.786	258	3.527
Net book value 31 December	5.514	552	863	6.929
Historic net book value of owned premises stated at valuation 31 December	3.404	-	-	3.404

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2019				
Cost or valuation				
Balance 1 January	6.260	3.032	-	9.292
Initial adoption of IFRS16 – Right-of-use assets	-	-	1.060	1.060
Additions	60	68	-	128
Disposals	(15)	(45)	-	(60)
Balance 31 December	6.305	3.055	1.060	10.420
Depreciation				
Balance 1 January	564	2.272	-	2.836
Charge for the year	142	304	213	659
On disposals	(10)	(44)	-	(54)
Balance 31 December	696	2.532	213	3.441
Net book value 31 December	5.609	523	847	6.979
Historic net book value of owned premises stated at valuation 31 December	3.543	-	-	3.543

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. PREMISES AND EQUIPMENT (continued)

THE BANK	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2020				
Cost or valuation				
Balance 1 January	6.207	2.813	1.060	10.080
Additions	24	283	-	307
Revaluation	24	-	-	24
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU	-	-	(29)	(29)
Balance 31 December	5.899	3.096	1.031	10.026
Depreciation				
Balance 1 January	598	2.295	213	3.106
Charge for the year	143	254	211	608
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU	-	-	(211)	(211)
Balance 31 December	385	2.549	213	3.147
Net book value 31 December	5.514	547	818	6.879
Historic net book value of owned premises stated at valuation 31 December	3.404	-	-	3.404

THE BANK	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2019				
Cost or valuation				
Balance 1 January	6.148	2.791	-	8.939
Initial adoption of IFRS16 – Right-of-use assets	-	-	1.060	1.060
Additions	59	67	-	126
Disposals	-	(45)	-	(45)
Balance 31 December	6.207	2.813	1.060	10.080
Depreciation				
Balance 1 January	457	2.037	-	2.494
Charge for the year	141	301	213	655
On disposals	-	(43)	-	(43)
Balance 31 December	598	2.295	213	3.106
Net book value 31 December	5.609	518	847	6.974
Historic net book value of owned premises stated at valuation 31 December	3.543	-	-	3.543

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. PREMISES AND EQUIPMENT (continued)

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in Premises and equipment, with a corresponding liability to the lessor recognised in Other liabilities, in accordance with the Group's leased assets accounting policy in note 3.18.

The Group policy is to revalue its own premises every 3 years, but more frequent valuations may be performed where there are significant movements in values. The Group's freehold premises are revalued by external professional valuers using two different valuation methodologies. The average value of the two methodologies is used to determine the premises valuation. The following table shows the valuation techniques used in measuring fair values of property, as well as the significant unobservable inputs used:

Valuation technique	Significant unobservable data	Inter-relationship between key unobservable inputs and fair value measurement
Investment method: The valuation model considers the income to be generated from the property, taking into consideration the income per square meter, a capitalization rate and the expected remaining useful life of the building.	• Rent price per square meter (€12,0-€12,5 per m^2); • Remaining useful life of the property (30 years); • Capitalization rate (5,5%);	The estimated fair value would increase/(decrease) if: • The rent prices per square meter were higher/(lower); • Estimated useful life of the property was longer/(shorter); • The capitalization rate was higher/(lower);
Comparison Method: The valuation method considers selling prices of other properties with similar characteristics that have been sold recently.	• Selling price per square meter (€2.400K – €2.850K per m^2).	The estimated fair value would increase/(decrease) if: • The selling prices per square meter were higher/(lower).

The Bank's freehold premises were valued by external professional valuers on 31 December 2020 at open market value on the basis of existing use. The surplus arising from the revaluation of freehold premises amounting to €24 thousand, was transferred to the revaluation reserve.

The net book value of freehold premises, on a cost less accumulated depreciation basis, as at 31 December 2020 would have amounted to €3.375 thousand (2019: €3.503 thousand). The net book value of leasehold premises as at 31 December 2020 amounts to €29 thousand (2019: €40 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. INTANGIBLE ASSETS

2020	THE GROUP Computer software €'000	THE BANK Computer software €'000
Cost		
Balance 1 January	5.254	5.080
Additions	281	281
Balance 31 December	5.535	5.361
Depreciation and impairment losses		
Balance 1 January	4.256	4.102
Charge for the year	408	397
Balance 31 December	4.664	4.499
Net book value 31 December	871	862

2019	THE GROUP Computer software €'000	THE BANK Computer software €'000
Cost		
Balance 1 January	4.930	4.773
Additions	324	307
Balance 31 December	5.254	5.080
Depreciation and impairment losses		
Balance 1 January	3.865	3.718
Charge for the year	391	384
Balance 31 December	4.256	4.102
Net book value 31 December	998	978

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Stock of properties held for sale	10.225	19.362	529	619
Sundry debtors and other assets	6.474	1.540	520	730
	16.699	20.902	1.049	1.349

Stock of properties held for sale

The Bank as part of its non-performing exposures management is entering into a number of debt-for-asset swap transactions. Assets acquired in satisfaction of debt are acquired directly or through wholly owned Special Purpose Entities (SPEs).

The carrying value of stock of properties is determined as the lower of cost and net realisable value. Impairment is recognized if the net realisable value is below cost.

The stock of properties held at 31 December 2020 consisted mainly of industrial buildings (€5,6 m), commercial buildings (€2,3 m) and commercial land plots (€1,8 m) and residential land and buildings (€93 m).

The movement of stock of properties held for sale is as follows:

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Balance 1 January	19.362	14.424	619	-
Exchange difference	-	(76)	-	-
Additions	8.130	9.194	11	619
Disposals	(16.669)	(4.180)	(101)	-
Impairment losses	(598)	-	-	-
Balance 31 December	10.225	19.362	529	619

25. BANK BORROWINGS

THE GROUP AND THE BANK

	2020	2019
	€'000	€'000
Borrowings	3.171	3.592
	3.171	3.592

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

25. BANK BORROWINGS (continued)

In 2016 a Finance Contract was signed between the Bank and the European Investment Bank (EIB) for an amount of up to €15 million. The purpose of the loan was to provide support to the Cypriot economy through the financing of eligible investment projects located in Cyprus undertaken by small and medium sized companies. The interest and repayment period are defined for each tranche of the loan. Until the end of 2020 two tranches were disbursed for a total amount of €4.210 thousand carrying a floating interest based on the six-month Euribor and a margin of 0,708%. Both tranches are repayable within ten years, from the date of disbursement, in twenty equal semi-annual instalments as follows:

		Balance		
	Disbursed	2020	2019	Maturity
	€'000	€'000	€'000	€'000
Tranche 1	2.000	1.401	1.601	November 2027
Tranche 2	2.210	1.770	1.991	November 2027
	4.210	3.171	3.592	

26. CLIENT DEPOSITS

THE GROUP AND THE BANK

	2020	2019
	€'000	€'000
Demand deposits	334.143	279.616
Fixed-term or notice deposits	190.138	216.682
	524.281	496.298

27. DEFERRED TAXATION

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Balance 1 January	350	329	350	329
Deferred tax on revaluation of premises	63	-	63	-
Deferred tax on temporary differences	-	56	-	-
Debited/(credited) to the income statement	27	(35)	27	21
Balance 31 December	440	350	440	350

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. DEFERRED TAXATION (continued)

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Surplus on revaluation of premises (net of accumulated depreciation)	449	386	449	386
Accumulated temporary differences between depreciation and capital allowances	(9)	(36)	(9)	(36)
	440	350	440	350

Deferred tax assets have not been recognised in respect of tax losses. Tax losses for which no deferred tax asset was recognised expire as follows:

	2020		2019	
	€'000	Expiry date	€'000	Expiry date
Balance 31 December	7.324	2021-2025	6.212	2020-2024

28. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	2.542	1.412	916	1.079
Items in the course of settlement	3.080	3.365	3.080	3.366
Deferred income[1]	271	321	271	321
Lease liability (note 29)	889	855	842	855
Provision for financial guarantees and commitments	717	519	717	519
	7.499	6.472	5.826	6.140

[1] Deferred income relates to the advance consideration received from customers for guarantees and letters of credit (LCs) extended, which are valid for a specific period of time as per the terms of each individual guarantee/LC extended. Deferred income will be recognised as revenue over the period of time to which it relates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. ACCRUALS AND OTHER LIABILITIES (continued)

Provisions for financial guarantees and commitments

The movement for the year in provisions for financial guarantees and commitments is as follows:

THE GROUP AND THE BANK	2020 €'000	2019 €'000
Balance 1 January	519	479
Net increase in provision (note 12)	198	40
Balance 31 December	717	519

Provisions for pending litigation

The movement for the year in provisions for pending litigation is as follows:

THE GROUP AND THE BANK	2020 €'000	2019 €'000
Balance 1 January	-	60
Provisions used during the year	-	(58)
Provisions reversed during the year	-	(2)
Balance 31 December	-	-

The expected timing of outflows of provisions is uncertain due to their nature.

29. LEASE LIABILITIES

The Group is a lessee for commercial properties such as office buildings and branches. The basic terms for the current lease contracts have a non-cancellable period of 2 years with an option to renew for one or two years. The Group has the right at any time after the expiry of the initial term to terminate the rental agreement by providing notice (usually 3 or 6 months' notice) to the lessor. Depending on the terms agreed, the rent is adjusted at the end of each renewal period by a percentage which is either fixed or linked to a price index.

Existing lease liabilities may change in future periods due to changes in assumptions or decisions to exercise lease renewal or termination options, changes in payments due to renegotiations of market rental rates as permitted by those contracts and changes to payments due to rent being contractually linked to a price index. In general, the remeasurement of a lease liability under these circumstances leads to an equal change to the right-of-use asset balance, with no immediate effect on the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. LEASE LIABILITIES (continued)

Movement in lease liability

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Balance 1 January - Initial adoption of IFRS16	855	1.060	855	1.060
Remeasurement of lease liability	252	-	183	-
Cash-outflow payments	(243)	(234)	(219)	(234)
Interest expense	25	29	23	29
	889	855	842	855

The right-of-use asset balances and depreciation charges are disclosed in Note 22.

The maturity profile for lease liabilities associated with leased premises is as follows:

THE GROUP
2020

	One year or less €'000	Between one and two years €'000	Between two and five years €'000	More than five years €'000	Total €'000
Other liabilities - lease liabilities	239	244	406	-	889

THE BANK
2020

	One year or less €'000	Between one and two years €'000	Between two and five years €'000	More than five years €'000	Total €'000
Other liabilities - lease liabilities	216	220	406	-	842

THE GROUP AND THE BANK
2019

	One year or less €'000	Between one and two years €'000	Between two and five years €'000	More than five years €'000	Total €'000
Other liabilities - lease liabilities	215	210	430	-	855

The fair values of lease obligations approximate to their carrying amounts as presented above.

NOTES TO THE FINANCIAL STATEMENTS

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30. LOAN CAPITAL

THE GROUP AND THE BANK

	2020 €'000	2019 €'000
Perpetual Unsecured Subordinated Note	5.000	5.000

On 3rd August 2017, the Bank issued at par a €5.000.000 Perpetual Unsecured Subordinated Note to Bank of Cyprus Public Company Limited. The interest rate on the Note is fixed at 13,75% per annum, payable semi-annually on 30th June and 31st December of each year. The payment of interest can be cancelled by the Bank (the Issuer) at its discretion, provided that at the time of such interest payment:

(a) The Capital Ratio of the Bank for the six months' period prior to the interest payment date concerned shall be below the Regulatory Minimum Capital Ratio as determined by the Central Bank of Cyprus (the Competent Authority) increased by 200 basis points;

(b) The interest payment shall cause the Capital Ratio of the Bank to fall below its Regulatory Minimum Capital Ratio, as determined by the Competent Authority for the six months' period prior to the Interest Payment Date concerned increased by 200 basis points.

Any interest payment cancelled, as indicated above, shall not accumulate or be payable at any time thereafter. For the year ending 31 December 2020 the conditions for payment of interest were not met, and consequently no interest was paid or accrued on the Note.

The Issuer has the option to redeem the Note in full but not in part on the fifth anniversary from the issue date of 3rd August 2022 or any due date for interest payment thereafter. The right to exercise such redemption option is subject to prior permission by the Competent Authority upon demonstrating that the Note has been replaced by own funds instruments of equal or higher quality or that following such redemption own funds would exceed minimum capital requirements as determined by the Competent Authority.

Upon the occurrence of a trigger event, being defined as a Core Equity Tier 1 ratio (CET1) below 5,125%, the principal amount of the Note shall be written down proportionately with other such loss absorbing instruments to the extent necessary to restore CET1 to 5,125%.

The Perpetual Unsecured Subordinated Note qualifies for classification as Additional Tier 1 Capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. SHARE CAPITAL

THE BANK

	2020 No. of shares	2020 Share Capital €'000	2019 No. of shares	2019 Share Capital €'000
Authorised:				
Ordinary shares of €0,20 each	704.849.584	140.970	704.849.584	140.970
Balance 31 December	704.849.584	140.970	704.849.584	140.970
Issued and fully paid:				
Balance 1 January	43.275.979	8.655	-	-
Class "A" shares converted to ordinary shares	-	-	12.961.354	2.592
Class "B" shares converted to ordinary shares	-	-	13.000.000	2.600
Class "B" shares converted to ordinary shares	-	-	13.030.303	2.606
Issued during the year	-	-	4.284.322	857
Balance 31 December	43.275.979	8.655	43.275.979	8.655
Balance 1 January	-	-	12.961.354	22.164
Capital reduction – NV/share from €1,71 to €0,20	-	-	-	(19.572)
Converted to ordinary shares	-	-	(12.961.354)	(2.592)
Balance 31 December	-	-	-	-
Balance 1 January	-	-	13.000.000	13.000
Capital reduction – NV/share from €1,00 to €0,20	-	-	-	(10.400)
Converted to ordinary shares	-	-	(13.000.000)	(2.600)
Balance 31 December	-	-	-	-
Balance 1 January	-	-	-	-
Issued during the year	-	-	13.030.303	2.606
Converted to ordinary shares	-	-	(13.030.303)	(2.606)
Balance 31 December	-	-	-	-
Total issued share capital	43.275.979	8.655	43.275.979	8.655

Authorised Share Capital

On 12 March 2019, an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, during which special resolutions were proposed and approved for the conversion of all classes of shares into a single class of ordinary shares in order to simplify the Bank's capital structure. The change in structure resulted to a decrease of the nominal value of the authorised share capital from €171.000.000 to €140.969.917. All classes of authorised share capital which were converted into ordinary shares, namely ordinary shares, Class "A" and Class "B" carried equal voting rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. SHARE CAPITAL (continued)

Issued Share Capital

On 12 March 2019 at the Extraordinary General Meeting (EGM) of the shareholders of the Bank a resolution was passed for the increase of the Bank's issued share capital by €4,3 million through the issuance of 13.030.303 class "B" shares with a nominal value of €0,20 each at a subscription price of €0,33 each. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019.

In addition, a resolution was proposed and approved for the reduction of the issued share capital of the Bank from €35.164 thousand to €5.192 thousand. The amount of €29.972 thousand corresponding to the amount of the reduction of the Company's issued share capital to be applied for writing off accumulated losses of the Bank and the remaining amount to be transferred to a capital reduction reserve fund account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

On 24 September 2019, with a special resolution of the shareholders of the Bank, the non-redeemable capital account of €4 million was converted into ordinary share capital through the issue and allotment of a total of 4.284.322 ordinary shares with a nominal value of €0,20 each to four of the existing shareholders at a total price of €4 million (€0,9336 per ordinary share).

Share premium

The difference between the issue price of share capital and its nominal value is recognised in the share premium reserve. The share premium is not available for distribution to shareholders in the form of a dividend. In 2019 shares were issued at a premium as follows:

	Number of shares issued	NV	Issue Price	NV	Share Premium	Total Capital
	€ '000	€	€	€ '000	€ '000	€ '000
Special resolution 12 March 2019	13.030.303	0,20	0,33	2.606	1.694	4.300
Special resolution 24 September 2019	4.284.322	0,20	0,93	857	3.143	4.000
				3.463	4.837	8.300

32. CONTINGENT LIABILITIES AND COMMITMENTS

The Group, as a financial institution, provides services such as documentary credits and guarantees. These facilities are usually offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The nominal amounts of contingent liabilities and commitments as at 31 December are as follows:

THE GROUP AND THE BANK

Contingent liabilities

	2020 €'000	2019 €'000
Guarantees issued	28.350	39.765

Commitments

	2020 €'000	2019 €'000
Documentary credits	3.575	1.666
Undrawn commitments for loans and advances granted to clients	36.180	35.916
	39.755	37.582
Contingent liabilities and commitments	**68.105**	**77.347**

Documentary credits represent bank commitments for payment to third parties, on condition that the terms of the documentary credit are satisfied, including the presentation of the required documents. The repayment by the client is usually immediate.

Undrawn commitments for loans and advances represent agreements to provide loans, overdrafts or other facilities to a client which have not yet been utilised by the client yet.

Capital Commitments

Commitments for contracted capital expenditure as at 31 December 2020 amount to € 34 thousand (2019: €2.823 thousand).

33. FAIR VALUE

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Group's and of the Bank's financial instruments, which are not shown on the calculated fair value, are measured at amortized cost using the effective interest method less provision for impairment. The fair value of loans and advances to customers equals the amount shown in the statement of financial position after deducting provisions for impairment.

Where possible, the Group calculates the fair value of financial assets using prices in active markets. A market is considered active if prices are available in a stable and continuous basis where real transactions between market participants are frequently carried out under normal commercial practice.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. FAIR VALUE (continued)

When the market for some financial instruments is not active, the Group calculates fair value using various methods of valuation. Such valuation methods may include the use of prices from recent transactions made at an arm's length, the use of the current fair value of other similar instruments, discounted cash flow methods and option pricing models. The chosen valuation method is compatible with generally accepted accounting methodologies used to determine the value of financial instruments. The data used in the valuation techniques represent market expectations and measurements of the relationship between risk-return relating to the financial instruments.

The Group and the Bank use the following hierarchy for determining and disclosing fair value:

Level 1: financial investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

For assets and liabilities that are recognised in the financial statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period. During the year ended 31 December 2020 and 2019, the Group did not make any transfers into and out of the fair value hierarchy levels.

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

THE GROUP

2020	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	19	5.573	-	-	5.573
		5.573	-	-	5.573
Financial liabilities		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. FAIR VALUE (continued)

THE GROUP

2019

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Equities	18	850	-	-	850
Debt securities	19	95.851	-	-	95.851
		96.701	-	-	96.701
Financial liabilities		-	-	-	-

There were no transfers between levels during 2020 and 2019.

THE BANK

2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	19	5.573	-	-	5.573
Investments in subsidiary companies	20	-	-	1.003	1.003
		5.573	-	1.003	6.576
Financial liabilities		-	-	-	-

2019

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments available for sale					
Equities	18	850	-	-	850
Debt securities	19	95.601	-	-	95.601
Investments in subsidiary companies	20	-	-	1.095	1.095
		96.451	-	1.095	97.546
Financial liabilities		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. FAIR VALUE (continued)

The following table presents an analysis of non-financial assets recorded at fair value by level of the fair value hierarchy.

THE GROUP

2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	22	-	-	5.514	5.514

2019

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	22	-	-	5.609	5.609

There were no transfers between levels during 2020 and 2019.

THE BANK

2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	22	-	-	5.514	5.514

2019

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	22	-	-	5.609	5.609

There were no transfers between levels during 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. FAIR VALUE (continued)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level of the fair value hierarchy into which each fair value measurement is categorised.

THE GROUP

2020	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	186.928	-	186.928
Balances with other banks	-	59.719	-	59.719
Loans and advances	-	-	227.235	227.235
	-	246.647	227.235	473.882
Financial liabilities				
Bank borrowings	-	-	3.171	3.171
Client deposits	-	-	524.281	524.281
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	717	717
	-	-	533.169	533.169

There were no transfers between levels during 2020 and 2019.

2019	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	180.693	-	180.693
Balances with other banks	-	21.663	-	21.663
Loans and advances	-	-	227.698	227.698
	-	202.356	227.698	430.054
Financial liabilities				
Bank borrowings	-	-	3.592	3.592
Client deposits	-	-	496.298	496.298
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	519	519
	-	-	505.409	505.409

There were no transfers between levels during 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. FAIR VALUE (continued)

THE BANK

2020	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	186.928	-	186.928
Balances with other banks	-	59.635	-	59.635
Loans and advances	-	-	227.235	227.235
	-	246.563	227.235	473.798
Financial liabilities				
Borrowings	-	-	3.171	3.171
Client deposits	-	-	524.281	524.281
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	717	717
	-	-	533.169	533.169

2019	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	180.693	-	180.693
Balances with other banks	-	21.383	-	21.383
Loans and advances	-	-	227.698	227.698
	-	202.076	227.698	429.774
Financial liabilities				
Bank borrowings	-	-	3.592	3.592
Client deposits	-	-	496.298	496.298
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	519	519
	-	-	505.409	505.409

There were no transfers between levels during 2020 and 2019.

The assumptions and methodologies underlying the calculation of fair values of financial instruments carried at fair value under level 2 and level 3 hierarchy and for financial assets not carried at fair value are as follows:

Investments in subsidiaries

Investment in Global Capital Limited is categorised under level 3. For this investment the Group uses models which are not based on observable market data and takes into account mainly the net position of the entity in which the investment has been made, as well as estimates of the Group's management to reflect uncertainties in fair values resulting from the lack of data. For the reasons mentioned sensitivity analysis is impracticable to be disclosed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. FAIR VALUE (continued)

Balances with other banks

Since almost all balances with banks are very short-term, the fair value is an approximation of the carrying value.

Loans and advances to customers

The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. In estimating future cash flows, the Group makes assumptions on expected repayments, timing and value of collateral realisation.

Premises

Premises consist of the Bank's freehold land and building in Nicosia used for own account. The fair value of premises is determined using valuations performed by external, accredited independent valuers (note 22).

34. CASH AND CASH EQUIVALENTS

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Cash	807	1.018	807	1.018
Balances with central banks	181.241	174.807	181.241	174.807
Balances with other banks	59.719	21.588	59.635	21.308
	241.767	197.413	241.683	197.133

Cash and cash equivalents include cash and unrestricted balances with Central Banks and cash with other banks with maturity of less than three months.

35. RISK MANAGEMENT

The Group, as a financial organisation, is exposed to risks, the most important of which are credit risk, market risk, liquidity risk and operational risk.

The Group implements internal mechanisms for continuous and systematic monitoring of the above risks in order to avoid excessive concentration of such risks. The nature of such risks and the manner of dealing with them are explained below:

The Group establishes risk management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and control procedures, and to continuously monitor such risks as well as the Group's adherence to limits and controls. Risk management policies are reviewed to reflect changes in market conditions, products and services rendered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk

In the ordinary course of its business the Group is exposed to credit risk. Credit risk emanates from the potential inability of clients to repay their loans and other credit facilities and the non–compliance with their contractual obligations. Credit risk is monitored through various control mechanisms in order to prevent undue risk concentration and to price facilities and products on a risk adjusted basis.

The Group establishes the financing policies and sets limits on credit exposures to clients and ensures that these policies and limits, as well as the related credit sanctioning procedures and controls, are complied with in the conduct of the Group's operations. Credit risk from connected clients' accounts is monitored on an aggregated basis. The creditworthiness of clients is assessed using credit rating and scoring systems.

The Group's policy relating to recognition of income on loans and advances and provisions for impairment of doubtful accounts is stated in note 3 to the financial statements.

The Group sets limits for the composition of the portfolio of loans and advances and monitors compliance with them. The credit risk exposure of the Group is diversified across the various sectors of the economy. The terms of loans and advances may be renegotiated due to deterioration in the client's financial position. The Group implements a restructuring policy in order to maximise collection opportunities and minimise the risk of default. The revised terms usually include extending maturity, changing timing of interest and principal payments and amendments of terms of loan covenants.

Internal Audit undertakes audits of the Group's portfolio of loans and advances and of the Group's credit processes.

The Group assesses the credit risk relating to investments in liquid funds, mainly debt securities and placements with banks. Counterparty and country limits are in place for managing such exposures.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Credit quality analysis

THE GROUP

	Note	2020 Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		42.143	-	-	-	42.143
A1 - A3		16.407	-	-	-	16.407
Ba1 - Ba3		186.121	-	-	-	186.121
B1 – B3		1.092	-	-	-	1.092
Unrated		77	-	-	-	77
	16	245.840	-	-	-	245.840
Loss allowance		-	-	-	-	-
Carrying amount	16	245.840	-	-	-	245.840
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		106.825	57.687	-	13.398	177.910
Grade 4-5: Special mention		97	780	-	-	877
Non-performing		-	-	104.128	6.245	110.373
	17	106.922	58.467	104.128	19.643	289.160
Loss allowance	17	(2.388)	(1.346)	(57.942)	(249)	(61.925)
Carrying amount	17	104.534	57.121	46.186	19.394	227.235
Loans and advances to customers at amortised cost - gross carrying amount						
Current		96.814	49.253	6.119	15.514	167.700
Overdue < 30 days		8.314	6.380	1.498	93	16.285
Overdue > 30 days		1.794	2.834	96.511	4.036	105.175
Total	17	106.922	58.467	104.128	19.643	289.160
Debt securities						
Ba1 - Ba3		82.356	-	-	-	82.356
	19	82.356	-	-	-	82.356
Loss allowance	19	(79)	-	-	-	(79)
Carrying amount	19	82.277	-	-	-	82.277
Financial guarantees and loan commitments						
Gross amount	32	57.597	3.523	1.264	2.146	64.530
Loss allowance	28	(589)	(128)	-	-	(717)
Carrying amount		57.008	3.395	1.264	2.146	63.813

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Credit quality analysis (continued)

THE GROUP		2019				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		15.046	-	-	-	15.046
A1 - A3		3.640	-	-	-	3.640
Baa1 - Baa3		1.366	-	-	-	1.366
Ba1 - Ba3		179.675	-	-	-	179.675
B1 – B3		1.398	-	-	-	1.398
Unrated		214	-	-	-	214
	16	201.339	-	-	-	201.339
Loss allowance		(1)	-	-	-	(1)
Carrying amount	16	201.338	-	-	-	201.338
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		125.965	32.633	-	14.027	172.625
Grade 4-5: Special mention		912	-	-	64	976
Non-performing		-	-	102.013	5.199	107.212
	17	126.877	32.633	102.013	19.290	280.813
Loss allowance	17	(2.017)	(595)	(50.162)	(341)	(53.115)
Carrying amount	17	124.860	32.038	51.851	18.949	227.698
Loans and advances to customers at amortised cost - gross carrying amount						
Current		105.028	23.082	4.598	12.024	144.732
Overdue < 30 days		16.397	6.004	3.569	3.281	29.251
Overdue > 30 days		5.452	3.547	93.846	3.985	106.830
Total	17	126.877	32.633	102.013	19.290	280.813
Debt securities						
Aaa - Aa3		29.885	-	-	-	29.885
Baa1 - Baa3		5.002	-	-	-	5.002
Ba1 - Ba3		50.985	-	-	-	50.985
Ba1 - Ba3		10.000	-	-	-	10.000
	19	95.872	-	-	-	95.872
Loss allowance	19	(21)	-	-	-	(21)
Carrying amount	19	95.851	-	-	-	95.851
Financial guarantees and loan commitments						
Gross amount	32	71.793	388	209	3.291	75.681
Loss allowance	28	(459)	(12)	(48)	-	(519)
Carrying amount		71.334	376	161	3.291	75.162

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK

	2020				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	46.570	21.030	31.301	7	98.908
Construction & real estate	35.372	11.547	16.586	17.778	81.283
Industry	4.180	1.985	15.062	-	21.227
Hotels & catering	9.506	22.703	9.187	1.219	42.615
Agriculture	561	-	12.728	-	13.289
Transport and storage	2.037	-	646	-	2.683
Other sectors	8.696	1.202	18.618	639	29.155
	106.922	58.467	104.128	19.643	289.160
Loss allowance	(2.388)	(1.346)	(57.942)	(249)	(61.925)
Carrying amount	104.534	57.121	46.186	19.394	227.235

Concentration by location

Concentration by location for loans and advances is based on the client's country of domicile. The carrying amount of loans and advances of the Group and the Bank relating to non-resident clients amount to €173 thousand (2019: €80 thousand).

THE GROUP AND THE BANK

	2019				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	52.741	13.026	29.162	24	94.953
Construction & real estate	45.133	1.801	19.241	17.525	83.700
Industry	4.394	709	16.971	-	22.074
Hotels & catering	16.126	16.558	6.236	1.204	40.124
Agriculture	304	-	12.251	-	12.555
Transport and storage	1.761	-	575	-	2.336
Other sectors	6.418	539	17.577	537	25.071
	126.877	32.633	102.013	19.290	280.813
Loss allowance	(2.017)	(595)	(50.162)	(341)	(53.115)
Carrying amount	124.860	32.038	51.851	18.949	227.698

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK	2020 €'000	2019 €'000
Carrying amount		
Grade 1-3: Low-medium risk	174.083	169.938
Grade 4-5: Special mention	799	943
	174.882	170.881
Of which loans and advances with renegotiated terms	18.092	32.697
*Value of collateral security**		
Grade 1-3: Low-medium risk	125.525	120.183
Grade 4-5: Special mention	518	583
	126.043	120.766
Of which loans and advances with renegotiated terms	16.603	31.644

**Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK

2020		Performing loans and advances			Non-performing
	Total loans and advances €'000	Non-restructured €'000	Restructured €'000	Total €'000	loans and advances €'000
Loans and advances to corporate legal entities					
Services	76.519	51.623	591	52.214	24.305
Construction & real estate	70.023	47.464	4.488	51.952	18.071
Industry	17.398	4.516	-	4.516	12.882
Hotels & catering	38.043	20.589	11.135	31.724	6.319
Agriculture	10.469	-	-	-	10.469
Transport and storage	1.037	1.037	-	1.037	-
Other sectors	1.440	-	-	-	1.440
	214.929	125.229	16.214	141.443	73.486
Loans and advances to retail legal entities					
Services	13.774	8.362	-	8.362	5.412
Construction & real estate	8.930	5.385	1.126	6.511	2.419
Industry	3.829	1.549	100	1.649	2.180
Hotels & catering	2.590	658	-	658	1.932
Agriculture	2.597	561	-	561	2.036
Transport and storage	1.494	1.000	-	1.000	494
Other sectors	-	-	-	-	-
	33.214	17.515	1.226	18.741	14.473
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	11.295	4.704	-	4.704	6.591
Consumer Loans	14.493	5.970	971	6.941	7.552
Current accounts	4.296	1.254	2	1.256	3.040
Credit facilities to sole traders	10.933	5.644	58	5.702	5.231
	41.017	17.572	1.031	18.603	22.414
Total loans and advances	289.160	160.316	18.471	178.787	110.373
Provisions	(61.925)	(3.526)	(379)	(3.905)	(58.020)
Carrying amount	227.235	156.790	18.092	174.882	52.353

NOTES TO THE FINANCIAL STATEMENTS

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35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK

2019	Total loans and advances €'000	Performing loans and advances: Non-restructured €'000	Performing loans and advances: Restructured €'000	Performing loans and advances: Total €'000	Non-performing loans and advances €'000
Loans and advances to corporate legal entities					
Services	66.064	48.949	3.960	52.909	13.155
Construction & real estate	71.496	41.589	11.198	52.787	18.709
Industry	28.094	4.627	-	4.627	23.467
Hotels & catering	33.962	17.343	12.079	29.422	4.540
Agriculture	10.157	-	-	-	10.157
Transport and storage	1.000	1.000	-	1.000	-
Other sectors	1.337	-	-	-	1.337
	212.110	113.508	27.237	140.745	71.365
Loans and advances to retail legal entities					
Services	11.519	6.380	-	6.380	5.139
Construction & real estate	8.801	3.449	1.908	5.357	3.444
Industry	3.898	873	101	974	2.924
Hotels & catering	1.620	783	-	783	837
Agriculture	2.179	304	-	304	1.875
Transport and storage	1.196	761	-	761	435
Other sectors	-	-	-	-	-
	29.213	12.550	2.009	14.559	14.654
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	9.882	3.550	-	3.550	6.332
Consumer Loans	10.095	2.567	721	3.288	6.807
Current accounts	4.666	1.544	5	1.549	3.117
Credit facilities to sole traders	14.847	6.753	3.157	9.910	4.937
	39.490	14.414	3.883	18.297	21.193
Total loans and advances	280.813	140.472	33.129	173.601	107.212
Provisions	(53.115)	(2.288)	(432)	(2.720)	(50.395)
Carrying amount	227.698	138.184	32.697	170.881	56.817

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date

THE GROUP AND THE BANK	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2020	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	27.914	1.404	1.243	23.387	1.094	1.022	1.029	-	1	3.498	310	220
Between one and two years	23.951	4.124	1.449	19.718	4.097	1.284	1.992	-	7	2.241	27	158
Between two and three years	22.325	168	158	20.228	125	126	609	-	-	1.488	43	32
Between three and five years	28.640	7.421	1.839	25.411	6.691	1.810	351	-	-	2.878	730	29
Between five and seven years	8.572	6.115	4.019	4.553	2.210	2.168	87	-	-	3.932	3.905	1.851
Between seven and ten years	53.062	24.919	9.417	40.279	15.870	8.305	6.922	6.591	270	5.861	2.458	842
Over ten years	124.696	66.222	43.800	114.567	57.872	38.370	305	-	-	9.824	8.350	5.430
	289.160	110.373	61.925	248.143	87.959	53.085	11.295	6.591	278	29.722	15.823	8.562

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35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date (continued)

	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2019	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	25.343	3.492	1.637	21.300	3.461	1.588	1.223	-	13	2.820	31	36
Between one and two years	23.509	177	216	21.220	140	164	676	-	-	1.613	37	52
Between two and three years	17.628	307	440	15.180	306	392	150	-	-	2.298	1	48
Between three and five years	22.664	12.930	3.576	17.492	8.389	1.802	315	-	-	4.857	4.541	1.774
Between five and seven years	6.805	3.295	1.443	4.058	1.303	884	53	-	-	2.694	1.992	559
Between seven and ten years	84.909	33.230	13.081	71.286	26.043	12.531	7.024	6.331	368	6.599	856	182
Over ten years	99.955	53.781	32.722	90.787	46.377	27.739	441	1	1	8.727	7.403	4.982
	280.813	107.212	53.115	241.323	86.019	45.100	9.882	6.332	382	29.608	14.861	7.633

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For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Analysis of non-performing loans and advances on the basis of arrears

THE GROUP AND THE BANK

2020	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	10.519	3.534	6.985	6.180
Between three and six months	550	529	21	21
Between six months and one year	2.304	1.690	614	563
Over one year	97.000	52.267	44.733	39.364
Total	110.373	58.020	52.353	46.128
Of which loans and advances with renegotiated terms	51.770	16.636	35.134	33.138

2019	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	12.930	6.314	6.616	5.655
Between three and six months	15.884	1.043	14.841	14.096
Between six months and one year	3.758	1.705	2.053	1.815
Over one year	74.640	41.333	33.307	28.442
Total	107.212	50.395	56.817	50.008
Of which loans and advances with renegotiated terms	50.663	13.168	37.495	35.663

**Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.*

Credit committees determine the amount and type of collateral and other risk mitigation required for the granting of new loans to customers, having knowledge of Credit Sanctioning Department's assessment and for material exposures the Risk Department's assessment.

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35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral, bank guarantees, government guarantees, pledges of equity securities and debt instruments, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees.

The table below presents the maximum exposure to credit risk, the tangible and measurable collaterals held and the net exposure to credit risk. Personal and corporate guarantees, are an additional form of collateral but are not included in the information below since it is impracticable to estimate their fair value.

	Maximum	Value of collateral*				Net
2020	exposure to credit risk €'000	Cash €'000	Property €'000	Other €'000	Total collateral €'000	exposure to credit risk €'000
Loans and advances to customers						
Performing						
Stage 1	104.534	2.067	67.273	930	70.270	34.264
Stage 2	57.121	365	41.910	494	42.769	14.352
POCI	13.227	-	13.004	-	13.004	223
	174.882	2.432	122.187	1.424	126.043	48.839
Non-performing						
Stage 3	46.186	152	38.818	1.180	40.150	6.036
POCI	6.167	-	5.978	-	5.978	189
	52.353	152	44.796	1.180	46.128	6.225
	227.235	2.584	166.983	2.604	172.171	55.064
2019						
Loans and advances to customers						
Performing						
Stage 1	124.860	5.665	73.263	501	79.429	45.431
Stage 2	32.038	82	27.518	-	27.600	4.438
POCI	13.983	-	13.737	-	13.737	246
	170.881	5.747	114.518	501	120.766	50.115
Non-performing						
Stage 3	51.851	164	43.802	1.076	45.042	6.809
POCI	4.966	-	4.966	-	4.966	-
	56.817	164	48.768	1.076	50.008	6.809
	227.698	5.911	163.286	1.577	170.774	56.924

*Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.

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For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Provisions for impairment of doubtful accounts on loans and advances

The table below discloses the accumulated impairment losses on the value of loans and advances as per IFRS 9.

THE GROUP AND THE BANK

	2020				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	**Total €'000**
1 January	2.017	595	50.162	341	**53.115**
Transfer from Stage 1 to Stage 2	(587)	587	-	-	**-**
Transfer from Stage 1 to Stage 3	(22)	-	22	-	**-**
Transfer from Stage 2 to Stage 3	-	-	-	-	**-**
Transfer from Stage 3 to Stage 2	-	-	-	-	**-**
Transfer from Stage 2 to Stage 1	113	(113)	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Exchange differences	-	-	-	-	**-**
Loans and advances written off	-	-	(98)	(234)	**(332)**
Charge/(reversal) for the year	867	277	7.901	142	**9.187**
Previously written off now recovered	-	-	(45)	-	**(45)**
31 December	2.388	1.346	57.942	249	**61.925**

POCI: Purchased or originated as Credit Impaired

During 2020 exposures of €375 thousand were written off (2019: €19.319 thousand).

	2019				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	**Total €'000**
1 January	2.024	1.527	62.993	31	**66.575**
Transfer from Stage 1 to Stage 2	(117)	117	-	-	**-**
Transfer from Stage 1 to Stage 3	(2)	-	2	-	**-**
Transfer from Stage 2 to Stage 3	-	(344)	344	-	**-**
Transfer from Stage 3 to Stage 2	-	26	(26)	-	**-**
Transfer from Stage 2 to Stage 1	515	(515)	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Exchange differences	-	-	10	-	**10**
Loans and advances written off	-	-	(19.376)	-	**(19.376)**
Charge/(reversal) for the year	(403)	(216)	6.298	310	**5.989**
Previously written off now recovered	-	-	(83)	-	**(83)**
31 December	2.017	595	50.162	341	**53.115**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.1 Credit risk (continued)

Provisions for impairment of doubtful accounts on loans and advances (continued)

The table below shows the loss allowance on loans and advances to customers assuming each forward-looking scenario (baseline, optimistic and pessimistic) was weighted 100% instead of applying scenario probability weights across the three scenarios:

	2020		
	Optimistic €'000	Baseline €'000	Pessimistic €'000
Loss allowance	57.218	60.337	69.806

The scenario probability weights applied by the Group for the calculation of ECL are 50% for the baseline and 25% for each of the optimistic and pessimistic scenarios.

Credit quality of Group assets exposed to credit risk other than loans and advances to Customers - analysis by rating agency designation

Balances with central banks and other banks

Balances with central banks and other banks are analysed by Moody's rating as follows:

	THE GROUP		THE BANK	
	2020 €'000	2019 €'000	2020 €'000	2019 €'000
Aaa – Aa3	42.143	15.046	42.143	15.046
A1 – A3	16.407	3.640	16.407	3.640
Baa1 – Baa3	-	1.366	-	1.366
Ba1 – Ba3	186.121	179.675	186.121	179.675
B1 – B3	1.092	1.397	1.049	1.263
Unrated	77	214	36	68
	245.840	201.338	245.756	201.058

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For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.2 Market Risk

Market risk is the risk of loss from adverse changes in market prices - namely from changes in interest rates, exchange rates and security prices.

35.2.1 Price risk

Equity securities price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

Investments in equities are outside the Group's risk appetite. The portfolio of equity investments at 31 December 2019 comprises of a holding in one company listed in the Cyprus Stock Exchange which was disposed in 2020. Therefore, there was no portfolio of equity investments at 31 December 2020. The prices of equity investments are being monitored by the Group on a regular basis.

Equity investments are stated in the financial statements at their assessed fair value which takes into account possible losses that may arise in relation to specific investments. A change in the value of equity investments classified as FVOCI affects the equity of the Group. The Group's policy relating to revaluation of equity investments at their assessed fair value is stated in note 3 to the financial statements.

The table below indicates how the equity of the Group will be affected from a change in the price of the equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices.

THE GROUP AND THE BANK

	2020			2019		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities at FVOCI						
Listed investments	-	+20	-	850	+20	170
Listed investments	-	-20	-	850	-20	(170)

Concentration of equity securities

THE GROUP AND THE BANK

	2020 €'000	2019 €'000
By sector		
Services	-	850
	-	850

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.1 Price risk (continued)

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Bank. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Bank invests a significant part of its liquid assets in debt securities issued mostly by governments. The current portfolio of debt securities comprises of debt securities at FVOCI and debt securitites at amortised cost. Changes in the value of securities at FVOCI affect the equity of the Group, whereas changes in the value of securities at amortised cost have no effect on equity. The Group's policy relating to valuation of debt securities, is stated in note 3 to the financial statements.

The table below shows the impact on the equity of the Bank and the Group from reasonably possible changes in the price of the debt securities held at FVOCI.

THE GROUP

	2020			2019		
	Carrying amount €'000	Change in market prices %	Effect on equity €'000	Carrying amount €'000	Change in market prices %	Effect on equity €'000
Debt Securities						
For A3 and above rated bonds	-	+3%	-	29.884	+3%	897
For below A3 rated bonds	5.573	+10%	557	65.967	+10%	6.597
For A3 and above rated bonds	-	-3%	-	29.884	-3%	(897)
For below A3 rated bonds	5.573	-10%	(557)	65.967	-10%	(6.597)

THE BANK

	2020			2019		
	Carrying amount €'000	Change in market prices %	Effect on equity €'000	Carrying amount €'000	Change in market prices %	Effect on equity €'000
Debt Securities						
For A3 and above rated bonds	-	+3%	-	29.884	+3%	897
For below A3 rated bonds	5.573	+10%	557	65.717	+10%	6.572
For A3 and above rated bonds	-	-3%	-	29.884	-3%	(897)
For below A3 rated bonds	5.573	-10%	(557)	65.717	-10%	(6.572)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.1 Price risk (continued)

Concentration of debt securities

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
By sector				
Sovereigns	82.277	91.383	82.277	91.133
EU and international organisations	-	3.573	-	3.573
Credit institutions	-	895	-	895
Corporate bonds	-	-	-	-
	82.277	95.851	82.277	95.601
By country				
Cyprus	70.570	50.964	70.570	50.714
United States of America	-	23.991	-	23.991
Other countries	11.707	20.896	11.707	20.896
	82.277	95.851	82.277	95.601

35.2.2 Interest rate risk

Interest rate risk arises as a result of changes in the rates of interest and re-pricing timing mismatches on assets and liabilities. The Group closely monitors fluctuations in interest rates on a continuous basis and the relationship of assets and liabilities, which are subject to interest rates fluctuations, and takes measures to contain to acceptable levels the effects of these changes on the Group's profitability.

Interest rate risk is measured using interest rate sensitivity gap analysis, where the annual impact of any change in interest rates on profit is calculated by multiplying the net asset or liability position re-pricing in each time band with the assumed change in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.2 Interest rate risk (continued)

The interest rate sensitivity gap analysis indicating the effect on the Group's and on the Bank's profit of changes in interest rates is shown in the tables below:

THE GROUP 2020	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	186.121	-	-	-	-	807	186.928
Balances with other banks	16.699	42.936	-	-	-	84	59.719
Loans and advances	107.542	23.291	88.894	-	-	7.508	227.235
Investments in debt securities	8.094	2.922	52.200	13.691	5.370	-	82.277
Premises and equipment	-	-	-	-	-	6.929	6.929
Intangible assets	-	-	-	-	-	871	871
Receivables and other assets	-	-	-	-	-	16.699	16.699
Total assets	318.456	69.149	141.094	13.691	5.370	32.898	580.658
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.171	-	-	-	3.171
Client deposits	31.259	44.053	113.787	1.039	-	334.143	524.281
Deferred taxation	-	-	-	-	-	440	440
Accruals and other liabilities	-	-	-	-	-	7.499	7.499
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	31.612	31.612
Total liabilities and equity	31.259	44.053	116.958	1.039	-	387.349	580.658
Net position	287.197	25.096	24.136	12.652	5.370	(354.451)	-
Change in interest rates -1% - effect on profit	(2.872)	(251)	(241)	(127)	(54)	3.545	-
Change in interest rates +1% - effect on profit	2.872	251	241	127	54	(3.545)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.2 Interest rate risk (continued)

THE GROUP 2019	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	179.675	-	-	-	-	1.018	180.693
Balances with other banks	2.187	19.120	76	-	-	280	21.663
Loans and advances	112.670	15.900	91.469	-	-	7.659	227.698
Investments in equities	-	-	-	-	-	850	850
Investments in debt securities	18.893	57.115	13.893	5.700	250	-	95.851
Premises and equipment	-	-	-	-	-	6.979	6.979
Intangible assets	-	-	-	-	-	998	998
Receivables and other assets	-	-	-	-	-	20.902	20.902
Total assets	313.425	92.135	105.438	5.700	250	38.686	555.634
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.592	-	-	-	3.592
Client deposits	47.600	50.183	115.312	3.588	-	279.615	496.298
Deferred taxation	-	-	-	-	-	350	350
Accruals and other liabilities	-	-	-	-	-	6.472	6.472
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	35.267	35.267
Total liabilities and equity	47.600	50.183	118.904	3.588	-	335.359	555.634
Net position	265.825	41.952	(13.466)	2.112	250	(296.673)	-
Change in interest rates -1% - effect on profit	(2.658)	(420)	135	(21)	(3)	2.967	-
Change in interest rates +1% - effect on profit	2.658	420	(135)	21	3	(2.967)	-

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35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.2 Interest rate risk (continued)

THE BANK 2020	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	186.121	-	-	-	-	807	186.928
Balances with other banks	16.699	42.936	-	-	-	-	59.635
Loans and advances	107.542	23.291	88.894	-	-	7.508	227.235
Investments in debt securities	8.094	2.922	52.200	13.691	5.370	-	82.277
Investments and exposures in subsidiary companies	-	-	-	-	-	13.782	13.782
Premises and equipment	-	-	-	-	-	6.879	6.879
Intangible assets	-	-	-	-	-	862	862
Receivables and other assets	-	-	-	-	-	1.049	1.049
Total assets	318.456	69.149	141.094	13.691	5.370	30.887	578.647
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.171	-	-	-	3.171
Client deposits	31.259	44.053	113.787	1.039	-	334.143	524.281
Deferred taxation	-	-	-	-	-	440	440
Accruals and other liabilities	-	-	-	-	-	5.826	5.826
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	31.274	31.274
Total liabilities and equity	31.259	44.053	116.958	1.039	-	385.338	578.647
Net position	287.197	25.096	24.136	12.652	5.370	(354.451)	-
Change in interest rates -1% - effect on profit	(2.872)	(251)	(241)	(127)	(54)	3.545	-
Change in interest rates +1% - effect on profit	2.872	251	241	127	54	(3.545)	-

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35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.2 Interest rate risk (continued)

THE BANK 2019	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	179.675	-	-	-	-	1.018	180.693
Balances with other banks	2.187	19.120	76	-	-	-	21.383
Loans and advances	112.670	15.900	91.469	-	-	7.659	227.698
Investments in equities	-	-	-	-	-	850	850
Investments in debt securities	18.893	57.115	13.893	5.700	-	-	95.601
Investments and exposures in subsidiary companies	-	-	-	-	-	19.598	19.598
Premises and equipment	-	-	-	-	-	6.974	6.974
Intangible assets	-	-	-	-	-	978	978
Receivables and other assets	-	-	-	-	-	1.349	1.349
Total assets	313.425	92.135	105.438	5.700	-	38.426	555.124
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.592	-	-	-	3.592
Client deposits	47.600	50.183	115.312	3.588	-	279.615	496.298
Deferred taxation	-	-	-	-	-	350	350
Accruals and other liabilities	-	-	-	-	-	6.140	6.140
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	35.089	35.089
Total liabilities and equity	47.600	50.183	118.904	3.588	-	334.849	555.124
Net position	265.825	41.952	(13.466)	2.112	-	(296.423)	-
Change in interest rates -1% - effect on profit	(2.658)	(420)	135	(21)	-	2.964	-
Change in interest rates +1% - effect on profit	2.658	420	(135)	21	-	(2.964)	-

NOTES TO THE FINANCIAL STATEMENTS

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35. RISK MANAGEMENT (continued)

35.2 Market Risk (continued)

35.2.3 Currency risk

Currency risk arises from adverse movements in the rates of exchange arises when there is a net currency position (asset or liability) in one or more currencies. Net currency positions are monitored on a daily basis and the Group takes such measures so that this risk is contained within acceptable limits. The foreign exchange position limits prescribed by the Central Bank of Cyprus are adhered to.

THE GROUP AND THE BANK	**2020**			**2019**		
	Net open position	Change in exchange rates	Effect on profits	Net open position	Change in exchange rates	Effect on profits
Currency	€'000	%	€'000	€'000	%	€'000
US Dollar	79	+10	8	109	+10	11
British Pound	(7)	+10	(1)	(35)	+10	(4)
Russian Rouble	282	+30	85	(55)	+30	(17)
Other currencies	5	+10	1	(5)	+10	(1)
US Dollar	79	-10	(8)	109	-10	(11)
British Pound	(7)	-10	1	(35)	-10	4
Russian Rouble	282	-30	(85)	(55)	-30	17
Other currencies	5	-10	(1)	(5)	-10	1

35.3 Liquidity Risk

Liquidity risk refers to possible losses that may be incurred due to a potential inability of the Group to meet fully or promptly its cash flow obligations. This risk includes the possibility that the Group may have to raise funding at higher cost.

The Group's banking business requires a steady flow of funds, both to replace existing deposits as they mature and to satisfy customer requests for additional borrowings. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position. The Management Body, reviews at its regular meetings the liquidity position of the Group.

Treasury manages liquidity risk on a continuous basis by closely monitoring the relationship between cash flow obligations and liquid assets and timely action is being taken to secure financial resources to meet the Group's funding requirements. Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.3 Liquidity Risk (continued)

Key liquidity ratios

The Group must comply, among others, with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61.

LCR is calculated as the ratio of high quality liquid assets over the expected net liquidity outflows over a period of 30 days, as these net outflows are specified under a stress test scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Group as at 31 December 2020 was 423% (31 December 2019 : 304%) and the Bank 417% (31 December 2019 : 304%), well above the regulatory minimum requirement of 100%.

An analysis of financial liabilities as at 31 December according to their residual contractual maturities is as follows:

THE GROUP

2020	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	-	2.747	3.171
Client deposits	365.401	44.053	113.787	1.040	-	524.281
Lease liability	45	58	138	648	-	889
Deferred taxation	-	-	-	-	440	440
Accruals and other liabilities	4.700	23	1.032	136	719	6.610
	370.146	44.134	115.381	1.824	3.906	535.391
OFF BALANCE SHEET						
Guarantees issued	1.346	1.869	11.559	12.499	1.077	28.350
Undrawn facilities	4.132	5.681	13.959	12.408	-	36.180
	5.478	7.550	25.518	24.907	1.077	64.530

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.3 Liquidity Risk (continued)

THE GROUP

2019	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	1.684	1.484	3.592
Client deposits	327.215	50.183	115.312	3.588	-	496.298
Lease liability	18	36	161	640	-	855
Deferred taxation	-	-	-	-	350	350
Accruals and other liabilities	4.790	27	121	160	519	5.617
	332.023	50.246	116.018	6.072	2.353	506.712
OFF BALANCE SHEET						
Guarantees issued	4.321	459	15.424	17.066	2.495	39.765
Undrawn facilities	3.214	4.852	14.744	13.106	-	35.916
	7.535	5.311	30.168	30.172	2.495	75.681

THE BANK

2020	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	-	2.747	3.171
Client deposits	365.401	44.053	113.787	1.040	-	524.281
Lease liability	44	54	120	624	-	842
Deferred taxation	-	-	-	-	440	440
Accruals and other liabilities	4.003	23	102	136	720	4.984
	369.448	44.130	114.433	1.800	3.907	533.718
OFF BALANCE SHEET						
Guarantees issued	1.346	1.869	11.559	12.499	1.077	28.350
Undrawn facilities	4.132	5.681	13.959	12.408	-	36.180
	5.478	7.550	25.518	24.907	1.077	64.530

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.3 Liquidity Risk (continued)

THE BANK

2019

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	1.684	1.484	3.592
Client deposits	327.215	50.183	115.312	3.588	-	496.298
Lease liability	18	36	161	640	-	855
Deferred taxation	-	-	-	-	350	350
Accruals and other liabilities	4.458	27	121	160	519	5.285
	331.691	50.246	116.018	6.072	2.353	506.380
OFF BALANCE SHEET						
Guarantees issued	4.321	459	15.424	17.066	2.495	39.765
Undrawn facilities	3.214	4.852	14.744	13.106	-	35.916
	7.535	5.311	30.168	30.172	2.495	75.681

Encumbered assets

Balances with other banks as at 31 December 2020 include encumbered amounts of €999 thousand (31 December 2019: €nil).

35.4 Operational risk

Operational risk is the risk of loss arising from a variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from other external events. It is inherent in every business organisation and covers a wide range of risks not directly attributable to any of the other risk types. The Bank is exposed to a variety of operational risks, such as: internal and external fraud, transaction execution errors, system failures, natural disasters, risk of losses due to damage of physical assets and risks arising from improper use of products or business practices.

The Group establishes policies and procedures for managing operational risk and monitors the adherence to these in the conduct of the Group's operations. Operational risk is managed by establishing internal processes and controls involving:

- Segregation of duties, including independent authorisation of transactions, the reconciliation and monitoring of transactions, documentation of controls and procedures;
- Compliance with regulatory and other legal requirements;
- Development of business continuity plans and disaster recovery plans;
- Personnel training;
- Risk mitigation by taking out insurance cover.

Internal Audit has the responsibility of reviewing periodically the above procedures and controls.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.4 Operational risk (continued)

Business Continuity Plans and Disaster Recovery Plans have been developed by the Group and are regularly updated to ensure continuity and timely recovery of operations after a potentially catastrophic event.

35.5 Capital management

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group and for the Bank. The capital requirements of the subsidiary company Global Capital Securities and Financial Services Ltd are set and monitored by the Cyprus Securities and Exchange Commission. All Group subsidiaries adhere to the mandatory capital requirements of the respective supervisory authorities.

The CBC requires the Group to maintain a prescribed capital adequacy ratio, which is the ratio of total eligible capital to total risk weighted assets, in accordance with Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms.

The minimum Pillar I total capital requirement is 8% which should be met by at least 6% Tier 1 (T1) capital of which 4,5% minimum Common Equity Tier 1 (CET 1) capital. The Group is also subject to additional capital requirements for risks which are not covered under Pillar 1 requirements. In February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, CBC determined the additional capital requirements to be met by CET 1 capital to be 5,20% of the Group's risk weighted assets (Decision No. 02/2017). On 10 December 2020, CBC in response to the extraordinary circumstances related to the COVID-19 pandemic, communicated to the Bank its final decision to amend Decision No. 2/2017 regarding the composition of the Pillar 2 additional own funds requirement not to be covered entirely by CET1 but it can be held instead in the form of 56,25% of CET1 capital and 75% of Tier 1 capital as a minimum. In addition to the total SREP capital requirement, the Group is also required to maintain a capital conservation buffer of 2,5%. Based on the above, for 2020 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (2019: 12,20%) and an overall capital adequacy ratio of 15,70% (2019: 15,70%).

On 12 March 2020, the ECB announced that banks are temporarily allowed to operate below the level of Pillar II Guidance (P2G) and the capital conservation buffer (CCB) and the countercyclical buffer. Furthermore, on 28 July 2020 ECB committed to allow banks to operate below the P2G and the combined buffer requirement until at least the end of 2022 without automatically triggering supervisory actions.

In June 2020 in response to the COVID 19 pandemic, regulation (EU) 2020/873 came into force which provides for certain amendments, bringing forward some of the capital relieving measures that were due to come into force at a later stage and introducing modifications as part of the wider efforts of competent authorities to provide the support necessary to the institutions. The main amendments affecting the Group's own funds as at 31 December 2020 relate to the acceleration of the implementation of the new SME discount factor under CRR II introduced in June 2020 instead of June 2021 (lower RWAs), extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1 allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets and phasing this in starting from 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.5 Capital management (continued)

The Group's CET 1 and overall adequacy ratio as at 31 December 2020 stood at 14,81% and 16,52% respectively, being above the regulatory capital requirements. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimize capital usage and maintain capital ratios above minimum requirements.

Additional information on regulatory capital is disclosed in the Pillar 3 Disclosures Report, which is available on the Group's website www.cdb.com.cy.

The Group's regulatory capital is analysed as follows:

Common Equity Tier I Capital:	It includes share capital, share premium, retained earnings, current year's profits, revaluation and other reserves. Intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier I Capital subject to transitional provisions.
Additional Tier I Capital:	It includes the Perpetual Unsecured Subordinated Note (note 30).

The Group adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk.

The Group has elected to apply the transitional provisions of EU Regulation 2017/2395 for gradual phase in over a five year period of the impact on regulatory capital caused by additional impairments arising from the implementation of IFRS 9 on 1 January 2018. The amount to be added back to regulatory own funds each year decreases based on weighing factors specified in the said EU Regulation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.5 Capital management (continued)

The Group's and the Bank's regulatory capital position as at 31 December was as follows:

	THE GROUP		THE BANK	
	2020	2019	2020	2019
	€'000	€'000	€'000	€'000
Transitional basis:				
Regulatory capital				
Common equity Tier I capital	43.136	45.686	42.941	45.659
Additional Tier I capital	5.000	5.000	5.000	5.000
Total regulatory capital	48.136	50.686	47.941	50.659
Risk weighted assets				
Credit risk	261.886	269.214	268.827	270.356
Operational risk	29.422	27.750	28.137	27.000
Total risk weighted assets	291.308	296.964	296.964	297.356
CET1 Capital ratio	**14,81%**	**15,38%**	**14,46%**	**15,35%**
T1 Capital ratio	1,71%	1,68%	1,68%	1,68%
Overall capital adequacy ratio	**16,52%**	**17,07%**	**16,14%**	**17,04%**

35.6 Leverage Ratio Requirements

The Basel III framework introduced the leverage ratio as a non risk based measure which is intended to restrict the build-up of excessive leverage from on and off-balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and is a binding requirement as from 1 January 2018. The leverage ratio is submitted to the regulatory authorities on a quarterly basis.

The Leverage Ratio of the Group as at 31 December 2020 was 7,83% (31 December 2019: 8,52%), and the Bank 7,80% (31 December 2019: 8,52%), well above the 3% minimum threshold applied by the competent authorities.

35.7 Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The Bank, within the framework of the Bank Recovery and Resolution Directive (BRRD), is subject to the minimum requirement for own funds and eligible liabilities (MREL). The framework, which entered into effect on 1 January 2016, provides authorities with a set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. This is achieved by requiring banks to have a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of a bank failure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. RISK MANAGEMENT (continued)

35.7 Minimum Requirement for Own Funds and Eligible Liabilities (MREL) (continued)

On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD II came into effect and it must be transposed into National Law. To date, this transposition has not yet taken place.

The Bank has received a formal notification from CBC, in its capacity as the National Resolution Authority, of its final decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank. According to the decision the minimum MREL requirement for the Bank is set at 15,70% of risk weighted assets (RWAs) and 4,25% of leverage ratio exposure (LRE) and this must be met by 31 December 2025. Furthermore, the Bank must comply with an interim requirement of 14,50% of RWAs and 4,25% of LRE by 1 January 2022. The MREL requirement, is in line with the Bank's funding and capital plans.

35.8 Revised Rules on Capital and Liquidity (CRR II and CRD V)

The capital adequacy and overall risk management requirements that currently apply to the Bank under the CRR and CRD IV prudential framework, will be replaced by the amended EU banking reform package established by the Directive (EU) 2019/878 (CRD V) and the Regulation (EU) 2019/876 (CRR II). The majority of CRR II provisions will be applicable from 28 June 2021.

The Regulation (EU) 2019/876 (CRR II) includes a number of amendments regarding the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures and reporting and disclosure requirements, among others.

The Directive (EU) 2019/878 (CRD V) amends the CRD IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. The Directive is in the process of being transposed into national legislation through the issuance of a Law amending the Macroprudential Oversight of Institutions Law of 2015.

The Bank is in the process of assessing the impact that these changes are expected to have on its solvency position, in order to take timely action and be in a position to adopt the new rules.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. CATEGORISATION OF FINANCIAL INSTRUMENTS

THE GROUP	Carrying amount €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2020				
Assets				
Cash and balances with central banks	186.928	186.928	-	-
Balances with other banks	59.719	59.719	-	-
Loans and advances	227.235	227.235	-	-
Debt securities	82.277	76.704	5.573	-
	556.159	550.586	5.573	-
Liabilities				
Bank borrowings	3.171	-	-	3.171
Client deposits	524.281	-	-	524.281
Loan capital	5.000	-	-	5.000
	532.452	-	-	532.452
31 December 2019				
Assets				
Cash and balances with central banks	180.693	180.693	-	-
Balances with other banks	21.663	21.663	-	-
Loans and advances	227.698	227.698	-	-
Equity investments	850	-	850	-
Debt securities	95.851	-	95.851	-
	526.755	430.054	96.701	-
Liabilities				
Bank borrowings	3.592	-	-	3.592
Client deposits	496.298	-	-	496.298
Loan capital	5.000	-	-	5.000
	504.890	-	-	504.890

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

THE BANK	Carrying amount €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2020				
Assets				
Cash and balances with central banks	186.928	186.928	-	-
Balances with other banks	59.635	59.635	-	-
Loans and advances	227.235	227.235	-	-
Debt securities	82.277	76.704	5.573	-
	556.075	550.502	5.573	-
Liabilities				
Bank borrowings	3.171	-	-	3.171
Client deposits	524.281	-	-	524.281
Loan capital	5.000	-	-	5.000
	532.452	-	-	532.452
31 December 2019				
Assets				
Cash and balances with central banks	180.693	180.693	-	-
Balances with other banks	21.383	21.383	-	-
Loans and advances	227.698	227.698	-	-
Equity investments	850	-	850	-
Debt securities	95.601	-	95.601	-
	526.225	429.774	96.451	-
Liabilities				
Bank borrowings	3.592	-	-	3.592
Client deposits	496.298	-	-	496.298
Loan capital	5.000	-	-	5.000
	504.890	-	-	504.890

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

THE GROUP	2020 Less than one year €'000	2020 Over one year €'000	2020 Total €'000	2019 Less than one year €'000	2019 Over one year €'000	2019 Total €'000
ASSETS						
Cash and balances with central banks	182.049	4.879	186.928	175.825	4.868	180.693
Balances with other banks	59.719	-	59.719	21.663	-	21.663
Loans and advances	76.252	150.983	227.235	71.633	156.065	227.698
Investments in equities	-	-	-	850	-	850
Investments in debt securities	63.215	19.062	82.277	90.151	5.700	95.851
Premises and equipment	2	6.927	6.929	-	6.979	6.979
Intangible assets	-	871	871	-	998	998
Receivables and other assets	3.340	13.359	16.699	13.128	7.774	20.902
Total assets	**384.577**	**196.081**	**580.658**	**373.250**	**182.384**	**555.634**
LIABILITIES						
Bank borrowings	424	2.747	3.171	424	3.168	3.592
Client deposits	138.063	386.218	524.281	492.710	3.588	496.298
Deferred taxation	-	440	440	-	350	350
Accruals and other liabilities	6.477	1.022	7.499	5.153	1.319	6.472
Loan capital	-	5.000	5.000	-	5.000	5.000
Total liabilities	**144.964**	**395.427**	**540.391**	**498.287**	**13.425**	**511.712**

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 there is an intention to sell.

Performing loans and advances are classified based on the contractual repayment schedule. Performing overdraft accounts are classified in the “less than one year” time band. The Stage 3 loans and overdrafts are classified in the “Over one year” time band.

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

Customer deposits are classified according to contractual maturity. Current account balances are classified under the “less than one year” time band.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

THE BANK	2020			2019		
	Less than one year €'000	Over one year €'000	Total €'000	Less than one year €'000	Over one year €'000	Total €'000
ASSETS						
Cash and balances with central banks	182.049	4.879	186.928	175.825	4.868	180.693
Balances with other banks	59.635	-	59.635	21.383	-	21.383
Loans and advances	76.252	150.983	227.235	71.633	156.065	227.698
Investments in equities	-	-	-	850	-	850
Investments in debt securities	63.215	19.062	82.277	89.901	5.700	95.601
Investments and exposures in subsidiary companies	694	13.088	13.782	12.523	7.075	19.598
Premises and equipment	-	6.879	6.879	-	6.974	6.974
Intangible assets	-	862	862	-	978	978
Receivables and other assets	406	643	1.049	605	744	1.349
Total assets	**382.251**	**196.396**	**578.647**	**372.720**	**182.404**	**555.124**
LIABILITIES						
Bank borrowings	424	2.747	3.171	424	3.168	3.592
Client deposits	523.241	1.040	524.281	492.710	3.588	496.298
Deferred taxation	-	440	440	-	350	350
Accruals and other liabilities	4.797	1.029	5.826	4.821	1.319	6.140
Loan capital	-	5.000	5.000	-	5.000	5.000
Total liabilities	**528.462**	**10.256**	**538.718**	**497.955**	**13.425**	**511.380**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. SHAREHOLDERS

The shareholding structure at 31 December 2020 is shown below:

	Shareholding structure as at 31.12.2020
Path Holdings Ltd	20,37%
Constantinos Shiacolas	17,52%
Delphis Investments Ltd	14,95%
Intergaz Ltd	9,96%
7Q Holdings Ltd	4,55%
7Q Invest I Multi Opportunities	5,44%
8Safe International Ltd	9,90%
Loramina Trading Ltd	6,80%
Leon Investment SARL	4,86%
Leonidas Ioannou	3,49%
CLR Investment Fund Public Ltd	1,41%
Holdings below 1%	0,75%

On 29 January, 2019 the Central Bank of Cyprus suspended the voting rights of Loramina Trading Ltd on the basis of the fit and proper criteria.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

Fees and emoluments of members of the Management Body and key management personnel

	2020 €'000	2019 €'000
Director emoluments		
Executives		
Salaries	234	236
Employers contributions for social insurance, etc	28	27
Retirement benefits	19	13
Compensation for terminations	400	-
	681	276
Non-executives		
Fees	250	202
	931	478
Key management personnel emoluments		
Salaries	679	206
Employers contributions for social insurance, etc	93	20
Retirement benefits	56	19
Compensation for terminations	-	170
	828	415
Total	1.759	893

Members of the Management Body and connected persons

Connected persons include spouses, minor children and companies in which members of the Management Body, hold directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

Key management personnel

Key management personnel emoluments for 2020 include the remuneration of the members of the EXCO committee with voting rights and for 2019 the remuneration of the General Manager Administration and General Manager Banking.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS (continued)

Transactions with members of the Management Body and connected persons:

	2020 €'000	2019 €'000
Loans and advances	641	1.740
Deposits	306	15.261
Unutilised limits	1	2.316
Interest income for the year	19	81
Interest expense for the year	-	1

All transactions with members of the Management Body and their connected persons are made on normal business terms.

Key Management personnel who are not Directors and their connected persons

Connected persons include spouses, minor children and companies in which the key management personnel who were not Directors hold, directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

	2020 €'000	2019 €'000
Loans and advances	465	194
Deposits	596	128
Guarantees and unutilised limits	97	21
Interest income for the year	3	1
Interest expense for the year	2	1

Transactions with key management personnel are made according to the terms applicable to the rest of the personnel of the Bank.

Balances and transactions with subsidiary companies are disclosed under notes 20 and 21 to the financial statements.

Transactions with shareholders

Pursuant to the provisions of IAS 24, related parties are considered, among others, the Shareholders who have significant influence over the Bank or/and hold directly or indirectly more than twenty percent (20%) of the nominal value of the issued capital of the Bank.

Connected persons include the entities controlled by Shareholders with significant influence as they are defined above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders (continued)

	2020 €'000	2019 €'000
Loans and advances	1.230	1.208
Deposits	2.910	3.638
Guarantees and unutilised limits	501	492

Interest and other income in relation to shareholders with significant influence and connected persons for the year ended 31 December 2020 amounted to €52 thousand (31 December 2019: €67 thousand) while the interest expense was € 1 thousand (31 December 2019: € 3 thousand).

During the year ended 31 December 2020, there were no purchases of goods and services from Shareholders with significant influence and their connected persons as defined above (31 December 2019: nil).

All transactions with Shareholders with significant influence and their connected persons are at an arm's length basis.

40. LITIGATION

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As at 31 December 2020, there were pending litigations against the Bank arising in the ordinary course of the Bank's business as well as a legal action by one of the Bank's shareholders. While the outcome of these matters is inherently uncertain the Bank considers, based on the information available, that the probability of outflow is low and therefore no provision was recorded against these cases.

41. OPERATING ENVIRONMENT

In a year shaped by the Covid-19 pandemic, the global economy contracted as governments imposed restrictions to control the spread of the virus. Global GDP shrank by 3,4% after a growth of 2,9% in 2019.

Cyprus Economy

The Cyprus economy, after the economic and financial crisis of 2013, and having returned to positive growth rates in 2015 recording the highest GDP growth rates in the EU from 2016 to 2018, entered the COVID-19 crisis in 2020 from a considerably favourable macroeconomic and fiscal position. This allowed for a sizeable public support package that offered an effective response to the crisis, while empowering the health sector with the necessary funds to cope with the increased demand, coupled with a massive testing and vaccination policy response. Real output in 2020 contracted by 5,1% in real terms, as opposed to a 3,1% real growth in 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. OPERATING ENVIRONMENT (continued)

Cyprus Economy (continued)

The negative GDP growth in 2020 was mainly driven by lower private consumption and exports. Private consumption decreased by 3,9% in real terms while government consumption recorded an increase of 13%. Gross fixed capital formation was influenced by decreases in construction and recorded a decrease of 2,1%. Real Imports declined at a rate of 5,8% mirroring the decline in private consumption, while exports, in real terms, also declined significantly at a rate of 17,4% reflecting the large decline in tourist arrivals.

Given the nature of the crisis caused by a massive external shock and exacerbated by international travel restrictions, periods of lockdown and periods of severe restrictions in movement and business operations, the impact has spread over several sectors of the economy. In 2020, value added loss was most pronounced in the Distribution, Transport and Hotels and Restaurants sector, with a 15% decline in the value added of the sector, compared to the previous year. This mostly reflects the impact of the crisis on the tourism sector, that suffered a substantial slump because of the international travel restrictions. The sectors of Arts and Entertainment and Other Services suffered a significant loss, with value added falling by 9,2%, whereas the loss of value added in the Industry sector (including manufacturing) amounted to 7,2% and in Construction to 6,4%.

The termination of the Cyprus Investment Programme (CIP) since October 2020 is expected to affect primarily growth prospects in the real estate sector and construction, given that investments in real estate through the CIP constituted more than 60% of total investments through the program. However, the impact on GDP growth is mitigated (estimated at around 0,4 percentage points annually during the period 2021-2023, or around 1,3 p.p. cumulatively). Due to the nature of investments in real estate through the CIP which concentrated in big construction projects for luxury developments, its termination is expected to drive a shift away from this segment of the real estate sector.

The impact of the crisis on the sectors of Professional, Administrative and Support Services was much less pronounced, with the value added falling by 2,6%, compared to the previous year. The impact on the sectors of Financial and Insurance Activities and in the Agricultural sectors was marginally negative. On the other hand, the Information, Communication and Technology sectors as well as Real Estate Activities and Public Administration, Education and Health sectors, increased their value added in 2020, in annual terms, by 1,4%, 1,0% and 1,0% respectively.

The labour market was affected negatively by the pandemic, although not in par with the fall in output. Employment in 2020 decreased by 0,6% in comparison to 2019, however the decrease of hours worked was much higher than the reduction of persons employed, which was around 6,4%, indicating that employers selected to avoid massive layoffs, possibly driven by the support schemes of the Ministry of Labour that included the prohibition of lay-offs in the eligibility criteria.

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For the year ended 31 December 2020

41. OPERATING ENVIRONMENT (continued)

Cyprus Economy (continued)

The rating agencies, through their recent rating actions, took a positive stance towards the Cypriot economy. On 26 March 2021, Fitch affirmed the long-term rating of Cyprus at BBB- with stable outlook. In its announcement Fitch comments on the institutional strength of the Cypriot economy, as underlined in its per capita GDP and governance indicators which are in line with the 'A' median and well above 'BBB' peers' and the robust economic growth and sound fiscal policy prior to the Covid-19 shock. The rating agency comments that these strengths are counter-balanced by balance sheet weaknesses, in particular high public debt and a weak banking sector. The agency forecasts growth to recover to 3,5% in 2021 and 4,3% in 2022, broadly in line with the eurozone dynamics, and driven by pent-up consumption demand. It is also expected that recovery will likely gain momentum only in 2H21, delayed by the recent wave of the pandemic. High uncertainty regarding tourism in 2021 is noted due to its dependence on arrivals from western European countries where vaccination had a slow start and travel restrictions are expected to be lifted only gradually. According to the rating agency the Cypriot Banking Sector, which is characterised as highly concentrated, continues to face challenges and remains among the weakest among rated-sovereigns, at 'b'. The agency notes that NPEs declined to EUR4,7 billion (16,7% of total loans) by end-2020 from EUR8 billion at end-2019, due mainly to asset sales and write-offs by the two largest banks and that the coverage ratio of the remaining NPE stock is 44%, and is in line with the eurozone average.

The Ministry of Finance projects that GDP growth for 2021 is expected to be around 3,5% and at 3,8% for 2023, as all sectors are expected to recover from the crisis. Over the same period, it is also anticipated that unemployment will resume its trajectory towards 5%. On the fiscal front, the budget is expected to return to positive territory in 2021 with the Debt/GDP ratio improving to 111% by the end of 2021 and to drop below 100% by the end of 2023.

Covid-19 impacted adversely the economic growth of the country and derailed its path to recovery, particularly in the short term. The coordinated measures taken by the European Union and the Government are expected to cushion the economy without compromising the fiscal discipline and public finances in the long term. Furthermore, the policies adopted by the ECB and the CBC are expected to address the challenges that could impact further the real economy.

Regulatory measures to mitigate the impact of COVID-19 on banks

On 12 March 2020, the ECB announced supervisory and operational relief measures for the coronavirus impact. Specifically, the ECB and the EBA announced, amongst others, the following relaxation measures for the minimum capital and liquidity requirements for Banks in the Eurozone:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar II capital guidance (P2G), the Capital Conservation Buffer, the Countercyclical Buffer and the Liquidity Coverage Ratio (LCR);
- The upcoming change under CRD5 regarding the Pillar II requirement (P2R) buffer was brought forward allowing the P2R to be covered by Additional Tier 1 capital and Tier 2 capital and not only by Common Equity Tier 1 capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. OPERATING ENVIRONMENT (continued)

State COVID-19 support

As a response to the pandemic, the state reached out to the real economy inter alia through banks, within the EU pandemic State Aid Temporary Framework 3. In fact, the banking sector has been a facilitator in sustaining economic output during the current health and economic crisis.

Loan moratoria: As part of the measures to support borrowers affected by COVID-19, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. About half of the performing portfolio entered into moratorium; in total €11 billion of eligible €23 billion, plus further €0,7 billion categorised as non-performing, split roughly equally in corporate and household loans. The second moratorium was available in the period of January to June 2021, for selected categories of debtors. Participation was low, at about €0,1 billion. Given the high take-up rate of the moratorium in Cyprus, a proactive and engaging risk and arrears management by credit institutions is essential in managing the possible emergence of new non-performing loans.

Interest rate subsidisation: The state launched two interest rate subsidisation schemes for new loans granted to households (mortgages only) and corporates in order to support debtors' liquidity and debt servicing capacity. The schemes provide for interest subsidisation for a total of 4 years. About €450 million of loans granted to date are eligible for subsidisation, the majority of which falls in the household segment. The scheme is available for new loans granted until end 2021.

Government guarantees: In April 2021 the Council of Ministers approved a public guarantee scheme to further support corporate liquidity. Under the €1 billion guarantee scheme a total of €1,4 billion of guaranteed loans may be granted by the end of 2021 to corporates for any purposes other than repayment of existing debt. Potential losses will be split among the state and credit institutions in a ratio of 70:30. Creditors must pursue the liquidation of underlying collateral. The scheme will be operational after a Parliamentary vote of the state guarantee into law and an approval by the European Commission upon fulfilment of state-aid requirements.

Banking sector overview

Undoubtedly the Banking Sector has not remained unaffected from the pandemic. Banks were forced to recalibrate their strategies, especially those relating to tackling the legacy NPE assets on their balance sheets as well as addressing the formation of new NPEs and those geared towards improvement of their operating models to accommodate remote work and the need for services digitalization both out of necessity as well as due to changing expectations of customers.

Unlike the financial crisis of 2013 in which the banking sector was the problem, this time the banking sector has been considered as part of the solution. At pan-European level relaxations to stringent regulatory rules (which were introduced in the previous years and led to a substantial stronger European Banking Sector) were introduced by the ECB aiming to enable banks to absorb the impact of the pandemic on their balance sheet and at the same time to enable them to provide support to the real economy. These measures include both capital and liquidity support.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. OPERATING ENVIRONMENT (continued)

Banking sector overview (continued)

Over the past three years (2018-2020) the banking sector asset size has remained broadly stable, with the year-end closing figure of €59 bn of assets or 280% of GDP. In terms of breakdown, banks have been following a shift towards less risky assets, namely cash and government bonds, which together make up one third of their balance sheet. Loans remain naturally the largest asset category at about 50% of total assets, albeit being lower than the respective European average.

The subdued economic activity presents low lending opportunities. These are further impacted by the high private debt, increasing unemployment and more conservative lending policies adopted by banks. Lending interest rates continue to decrease mainly due to market competition amongst banking institutions to sustain their loan books. Nevertheless, opportunities for good new lending in new growing sectors are present; with new lending exhibiting an increasing trend in more recent months.

The banking sector remains well capitalised. The CET1 ratio reached 17,6% at the end of 2020 recording a small increase compared to 17,3 % at the end of 2019, following a reduction in risk weighted assets. Similarly, the solvency ratio increased to 20,3% from 19,9% at the end of 2019. Profitability remains a challenge, as it is throughout Europe, amidst a low-interest environment and intensified by the pandemic hit on economic output. Profitability turned negative again in 2020, following two preceding profitable years mainly due to higher loan loss provisioning.

Cypriot Bank’s business model viability faced risks even before the pandemic with reduced opportunities for profitable investments and the persistent low interest rate environment. Pressure on Bank’s profitability is expected to remain elevated in the medium term as the low interest rate environment is expected to persist for even longer than anticipated in the pre-pandemic years, interest income is expected to also come under further pressure if new NPEs are formed with bottom line profitability impacted further by potentially elevated loan-loss provisioning expenses. In addition, competition from new markets players is expected to increase due to changing consumer demands and expectations therefore exerting further pressure on fee income. At the same time the challenges arising from the need of digitalization of the Bank’s processes and services, present opportunities for streamlining their cost base.

In terms of liquidity, Cypriot banks continue to maintain relative high buffers, with both Liquidity Coverage Ratio and Net Stable Funding Ratio considerably exceeding the regulatory minimum requirement. Liquidity is deposit-funded in Cyprus, with the share of other instruments, such as bonds, quite low.

Domestic deposits have been resilient over 2020, stemming mostly from households whereas corporate deposits declined to absorb the liquidity shock and as a result of the imposition of negative interest rates at the beginning of the year. Non-resident deposits continue to decline as a result of proactive risk mitigation measures by credit institutions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. OPERATING ENVIRONMENT (continued)

Banking sector overview (continued)

The loan asset quality remains the most important challenge that credit institutions face albeit the significant and steady progress achieved over the past years. In the last 7 years the Cypriot Banking Sector has made significant efforts to reduce the stock of NPEs through organic internal efforts which included restructuring of debt, DFAs and foreclosures. These efforts were coupled in the more recent years with more drastic actions such as loan sales and the carve out, by the Government, in 2018 of c. €7,5 billion of NPEs from the system through the creation of a state owned asset management company and write-offs. At the same time, important steps were taken to improve the insolvency and foreclosures frameworks which further facilitated the efforts of banks. As a result, the NPEs of the sector reduced from the record high level of more than 50% of total loans in 2013 to c. 16% in the end of 2020. This resulted in strengthening the confidence in the sector and positive actions by rating agencies.

Cypriot Banks as other European banking institutions, are now operationally better prepared having learned and developed through the experiences of the recent past, to organically address the formation of new NPEs which will nevertheless create challenges in the attainment of the regulatory expectation for NPE levels below 10%. These efforts will be further impacted negatively if the improvements achieved in the legislative framework are overturned. The recent discussions by the Parliament on this area have resulted in rising concerns of institutional bodies such as the ECB and the IMF. Challenges will also further increase if the pandemic continues to persist and demands the enforcement of further containment measures.

The market for NPL sales in Cyprus has significantly improved in recent years and attracted the interest of foreign investors such as global investment managers. In recent years sizeable transactions have been completed successfully by the larger institutions on the island. In addition, a number of servicing companies have been established to manage the NPEs of either specific institutions or which provide services to a number of institutions. Mergers and/ or acquisitions are likely to be seen in future years between these entities as they progressively manage acquired assets. These developments have improved the access of smaller institutions to investors and made smaller portfolio sales more likely.

42. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period which affect the consolidated and the separate financial statements of the Company as at 31 December 2020.

The consolidated and the separate financial statements of the Company were approved by the Board of Directors of the Company on 7 June 2021.

The consolidated and standalone financial statements were approved and authorised for issue on 7 June 2021.

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