cdbbank

The Cyprus Development Bank Group

Annual Financial Report

For the year ended 31 December 2023

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DIRECTORS AND ADVISERS

Management Body

Christodoulos Patsalides, Chairman, Non-Executive

Andreas Hadjikyrou, Vice-Chairman, Non-Executive

Avgoustinos Papathomas, Senior Independent, Non-Executive

Stalo Koumidou, Non-Executive

Konstantinos Mitropoulos, Non-Executive

Christodoulos Plastiras, Non-Executive

Dimitrios P. Sioufas, Non-Executive

Demetris Sparsis, Non-Executive

Loucas Marangos, Executive

Stella Avraam, Executive

Chief Executive Officer

Loucas Marangos

Secretary

Maria Agathokleous

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

Deloitte Limited

Registered office

50, Arch. Makarios III Avenue

Alpha House

1065 Nicosia

MANAGEMENT REPORT

The Management Body of The Cyprus Development Bank Public Company Limited (the ''Bank'') presents to its shareholders 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 2023.

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 Note 21 to the Financial Statements.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 41.

Income Statement Analysis

Total net income

Total net income for the year ended 31 December 2023 amounted to €25,2 million, compared to €13,3 million for the year ended 31 December 2022, an increase of 89% mainly driven by the increase of net interest income as explained below.

Net interest income

Net interest income (NII) for the year ended 31 December 2023 amounted to €21,8 million, up by 120% compared to €9,9 million for the year ended 31 December 2022. The annual increase of 120% was driven by the successive interest rate increases by ECB throughout the year. The increase of interest rates had a particularly positive impact on interest from liquid funds which reprice immediately.

The Group's average interest earning assets for 2023 amounted to €536 million (2022: €504 million), an increase of 6% compared to last year, while net interest margin for 2023 amounted to 4,06% (2022: 1,96%).

Non-interest income

Net non-interest income for the year ended 31 December 2023 amounted to €3,4 million, remaining relatively unchanged compared to €3,4 million for the year ended 31 December 2022, comprising of net fee and commission income of €3,0 million (2022: €3,0 million), net foreign exchange loss of €0,01 million (2022: €0,04 million profit), net gains on disposal of stock of property €0,2 million (2022: €0,2 million), and other income of €0,2 million (2022: €0,2 million).

Expenses

Total expenses for the year ended 31 December 2023 amounted to €14,4 million, compared to €13,2 million for the year ended 31 December 2022, up by 9%. 59% of total expenses related to staff costs (€8,5 million), 29% to other operating expenses (€4,2 million), 6% to depreciation (€0,8 million) and 6% to special levy on deposits and other levies and contributions (€0,9 million). The annual increase was driven mainly by increase in staff costs, other operating expenses and special levy on deposits and other levies. Further details are provided below.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Expenses (continued)

Group staff costs for 2023 amounted to €8,5 million compared to €8,0 million for 2022, an increase of 6%. The main drivers of the increase were the increase of COLA by 5,8% and the annual increments to staff as per collective agreements with ETYK amounting to approximately 3,8%. The increase in staff costs was contained to 6% due to the reduced headcount from an average of 140 in 2022 to an average of 135 in 2023.

The Group's other operating expenses (including depreciation) for 2023 amounted to €5,0 million up by 16% compared to €4,3 million for 2022, mainly driven by higher regulatory fees up by 47%, consultancy and legal fees up by 42%, IT expenses up by 12%, and other operating expenses up by 14%.

Special levy on deposits and other levies/contributions for 2023 amounted to €0,9 million up by 10% compared to €0,8 million for 2022 mainly due to higher level of deposits during 2023.

The cost to income ratio excluding special levy on deposits and other levies/contributions for 2023 was 54% compared to 93% for 2022. The decrease is driven by higher interest income.

Provisions for impairment

The Group's total provisions for impairment for 2023 amounted to €3,7 million compared to €0,2 million for 2022.

Total provisions for impairment comprise mainly of impairment charge on loans and advances of €3,2 million (2022: reversal of €0,4 million), impairment charge on financial guarantees and commitments €0,4 million (2022: reversal of €0,03 million) and impairment losses on valuation of stock of property of €0,2 million (2022: €0,2 million).

The impairment charge of €3,2 million on loans and advances was based on updated collateral values as per the Bank's Policy using updated forecasts and haircuts. From the charge an amount of €1,2 million is attributable to changes in key inputs used in the 2023 ECL calculation. Specifically, for the baseline scenario:

- For 2023, time to liquidation for real estate collaterals, was set to 5 years for all types of properties compared to 3-5 years set in the previous year depending on the type of property. The resulting weighted average liquidation period for all real estate collaterals was 5,0 years for the 2023 calculation compared to 3,6 years for the 2022 calculation.
- Liquidation haircuts vary depending on the type and location of each collateral with the liquidation haircut, including selling expenses ranging from 10%-45% under the baseline scenario resulting to a weighted average liquidation haircut of 18% for 2023 compared to 17% for 2022.

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

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis

The Group's total assets as at 31 December 2023 amounted to €558 million presenting an increase of 2% compared to €548 million as at 31 December 2022, driven by the increase of equity attributable to the year’s profitability and the increase of customer deposits. The increase was reflected mainly in the increase of balances with central banks.

The Group Financial Position is set out in the Consolidated Statement of Financial Position on page 45.

Liquidity

As at 31 December 2023, the Group Liquidity Coverage Ratio (LCR) stood at 355% (31 December 2022: 304%), well above the regulatory minimum requirement of 100%. The liquidity surplus in LCR at 31 December 2023 amounted to €241 million (31 December 2022: €202 million).

At 31 December 2023, the Group Net Stable Funding Ratio (NSFR) stood at 252% (31 December 2022: 214%), with the minimum regulatory requirement at 100%.

Liquid assets

The Group's carrying value of liquid assets amounted to €348 million as at 31 December 2023, an increase of 11% compared to €313 million as at 31 December 2022. Liquid assets represent 62% of the total assets of the Group as at 31 December 2023 (31 December 2022: 57%), and comprise of cash and balances with Central Bank of €300 million (31 December 2022: €220 million), placements with other banks of €2 million (31 December 2022: €2 million) and investments in debt securities of €45 million (31 December 2022: €90 million).

Loans and advances to customers

The Group's gross loans and advances as at 31 December 2023 amounted to €210 million, decreasing by 16% compared to €250 million as at 31 December 2022 mainly due to resolution of NPEs, as well as the low level of new lending.

Non-performing exposures
The Group continued its efforts for the resolution of NPEs and improvement of the quality of the loan portfolio. In its NPE Plan for 2023, Management formulated a recovery action plan (''NPE Plan'') defining the resolution strategy for each major NPE exposure with the objective being the minimisation of the resolution period. During 2023, the Group deployed all available tools to manage NPEs, namely restructurings, debt for asset swaps, foreclosures, legal measures and receiverships.

The target set for 2023, was the decrease of NPEs by 29% from €65,3 million at the end of 2022 to €46,7 million by the end of 2023. During 2023 through the implementation of internal actions defined in the NPE Plan for 2023, and the low level of new NPE inflows, the 2023 NPE target was exceeded, with NPEs decreasing by 37% from €65,3 million to €41,2 million. Furthermore, the NPE ratio on a gross basis decreased from 26,2% at the end of 2022 to 19,6%, at the end of 2023, while on a net basis the NPE ratio decreased from 16,0% at the end of 2022 to 12,6% at the end of 2023.

The NPE provision coverage ratio as at 31 December 2023 stood at 41,7% compared to 46,9% at 31 December 2022. The decrease is attributed to write offs of €19,8 million fully provided NPEs during the year.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Stock of property

During the year ended 31 December 2023, the Group on boarded €3,3 million (31 December 2022: €3,1 million) of properties through foreclosures and debt for asset swaps and completed disposals of €3,1 million (31 December 2022: €3,9 million). Disposals in 2023 were made at a net gain of €0,2 million (31 December 2022: €0,2 million). Impairment charge on stock of property amounted to €0,2 million for 2023 (2022: €0,2 million).

Deposits

Client deposits amounted to €489 million as at 31 December 2023, remaining at the same levels compared to €487 million at 31 December 2022. Customer deposits accounted for 88% of total assets at 31 December 2023 (31 December 2022: 89%) and net loans to deposit ratio stood at 39% at 31 December 2023 indicating the high level of liquidity of the Group (31 December 2022: 44%).

Loan capital

At 31 December 2023, the Group's loan capital (including accrued interest) amounted to €11,3 million (31 December 2022: €11,3 million) and relates to an Unsecured Perpetual Subordinated Note of €5 million (31 December 2022: €5 million) which qualifies for classification as Additional Tier 1 Capital, and Subordinated Tier 2 Bonds of €6,3 million (31 December 2022: €6,3 million) which qualifies for classification as Tier 2 Capital.

Details about loan capital are disclosed in Note 32 to the Financial Statements.

Capital base

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 Group's CET 1 ratio as at 31 December 2023 stood at 20,56% (2022: 16,04%), 997 bps above the minimum regulatory CET 1 ratio of 10,594%. The overall Capital Ratio (OCR) as at 31 December 2023 stood at 25,68% (2022: 20,72%), 918 bps above the minimum regulatory OCR of 16,50%. 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.

CET 1 capital amounted to €45,2 million as at 31 December 2023, up by 17,3% compared to €38,5 million as at 31 December 2022. CET 1 and OCR ratios were positively affected by organic capital generation from the year’s profitability and positive valuation adjustments through OCI as well as by the decrease of risk weighted assets and were negatively affected by the final phasing-in of IFRS 9 transitional adjustment.

Details on capital base and capital adequacy are disclosed in Note 38.5 to the Financial Statements.

MANAGEMENT REPORT (continued)

GOING CONCERN

The Group's Financial Statements have been prepared on a going concern basis following the assessment performed by the Board of Directors and Management on the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these Consolidated and Separate Financial Statements.

The Directors have considered the conditions that existed during 2023 and the developments up to the date of approval of these Consolidated and Separate 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.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, liquidity, capital requirements and capital resources taking into consideration the Group Business Plan for 2024-2026 approved by the Board in November 2023 (the "Plan") and the operating environment (as set out in Note 44). The Plan has used conservative economic inputs to develop the Group's medium term strategy and incorporates sensitivity scenarios to cater for downside risk and assesses how possible changes in some of the underlying assumptions used in the projections (higher risk weights, lower level of lending, outflows of deposits, lower margins on loans and higher cost of deposits), could impact the projected financial performance of the Group and its capital adequacy and liquidity. The Board and Management have paid particular attention to the challenges and uncertainties stemming from the macroeconomic developments (as set out in Note 44 - Operating environment) that may affect the application of the principle.

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 Group's CET 1 ratio as at 31 December 2023 stood at 20,56% (2022: 16,04%), 997 bps above the minimum regulatory CET 1 ratio of 10,594%. The overall Capital Ratio (OCR) as at 31 December 2023 stood at 25,68% (2022: 20,72%), 918 bps above the minimum regulatory OCR of 16,50%. 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 for the period of assessment:

- The Group as at 31 December 2023 was in compliance with regulatory capital requirements having adequate buffers (Note 38.5).
- As part of its assessment the Board of Directors has considered the current and future regulatory capital requirements as explained below:

MANAGEMENT REPORT (continued)

GOING CONCERN (continued)

Capital (continued)

- In the context of the annual SREP performed by CBC and based on the final 2021 SREP decision received on 8 February 2023, Pillar 2 requirement was revised to 5,50% (from 5,20%) resulting to a minimum CET 1 regulatory requirement of 10,094% (from 9,93%) and OCR regulatory requirement of 16,50% (from 15,70%) effective as from 8 February 2023. Furthermore, the final SREP 2021 decision introduced Pillar 2 guidance (P2G) which should be comprised entirely of CET 1 capital and held over and above the OCR.

- On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the Countercyclical Buffer (CCyB) rate from 0,00% to 0,50% of the total risk exposure amount of each licensed credit institution incorporated in Cyprus. The new rate of 0,50% came into effect as from 30 November 2023. The CCyB for the Group as at 31 December 2023 has been calculated at 0,50%.

- On 2 June 2023, CBC announced its decision to raise the CCyB rate to 1,00% (from 0,50%) of the total risk exposure amount in Cyprus of each licensed credit institution incorporated in Cyprus. The said increase will be effected as from 2 June 2024.

- Based on the Bank's approved Business Plan all capital ratios are maintained above regulatory capital requirements for the period of assessment (including Pillar 2 Guidance and MREL add on based on final target). The Board of Directors taking into consideration all available information, together with the Business Plan approved in November 2023 and relevant sensitivity scenarios performed, expects that the Group will be able to meet its capital requirements for the period of assessment without the need for additional capital.

- The Management Body and Management of the Group remain focused to implement the actions contemplated in the Business Plan of the Group which ensures the viability of the Bank and the Group and compliance with regulatory capital requirements throughout the period of assessment.

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 regulatory liquidity ratios. The Liquidity Coverage Ratio (LCR) stood at 355% on 31 December 2023 compared to 304% as at 31 December 2022, well above the minimum regulatory requirement of 100%.

- The Group holds significant liquidity buffers that can be monetised in a period of stress. The LCR surplus as at 31 December 2023 amounted to €241 million.

- Based on the Group's approved Business Plan, together with relevant sensitivity scenarios, it is expected that the Group will be compliant with regulatory liquidity requirements for the period of the going concern assessment.

MANAGEMENT REPORT (continued)

GOING CONCERN (continued)

Non-performing exposures (NPEs)

Effective management of the non performing loan portfolio and monetization of REOs remains a top priority for the Group. During 2023, the Group deployed all available tools to manage NPEs, namely restructurings, debt for asset swaps, foreclosures, legal measures and receiverships.

The target set for 2023, was the decrease of NPEs by 29% from €65,3 million at the end of 2022 to €46,7 million by the end of 2023. During 2023, as a result of the implementation of internal actions defined in the NPE Plan for 2023 as well as the low level of new NPE inflows, the 2023 NPE target was exceeded, with NPEs decreasing by 37% from €65,3 million to €41,2 million. Furthermore, the NPE ratio on a gross basis decreased from 26,2% at the end of 2022 to 19,6%, at the end of 2023, while on a net basis the NPE ratio decreased from 16,0% at the end of 2022 to 12,6% at the end of 2023.

In its NPE Plan for 2024-2026 Management has formulated a recovery action plan for organic reduction of NPEs. The plan defines the resolution strategy for each NPE exposure with the primary objective to expedite the resolution process. The implementation of these actions is carefully monitored, and recovery strategies and action plans are frequently reviewed and revised based on developments and results in order to promptly introduce corrective actions.

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 various control mechanisms. Information relating to the principal risks the Group faces and risk management is set out in Note 38 to the Financial Statements. In addition, in relation to legal risk arising from litigations, further information is disclosed in Note 43 to the Financial Statements.

SHARE CAPITAL

There were no changes in the share capital of the Bank during the year ended 31 December 2023.

SHAREHOLDERS

The shareholding structure as at 31 December 2023 is presented in Note 41 to the Financial Statements.

CAPITAL MANAGEMENT

At 31 December 2023 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 10,594% (31 December 2022: 9,93%) and an Overall Capital Ratio ("OCR") of 16,50% (31 December 2022: 15,70%).

The Group's CET 1 and OCR as at 31 December 2023 stood at 20,56% and 25,68% respectively, being above the minimum regulatory requirements. The capital ratios were in compliance with minimum regulatory requirements throughout 2023.

MANAGEMENT REPORT (continued)

CAPITAL MANAGEMENT (continued)

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 disclosed in Note 38.5 to the Financial Statements.

STRATEGY AND PRIORITIES

The Group's medium term strategic objectives remain focused on strengthening its balance sheet, improving the quality and efficiency of its assets, further strengthening its capital position, and increasing its operating profitability through the prudent growth of its loan portfolio which will increase both interest and fee income, as well as the diversification of income streams from fee generating activities. At the same time the maintenance of strong capital and liquidity ratios remain top priorities for the Group.

The effective management of non performing exposures remains a top priority for the Group. In its NPE Plan for 2024, Management has formulated a recovery action plan defining the resolution strategy for each major NPE exposure with the objective being the minimisation of the resolution period. During 2023 the NPE Plan for the year was successfully implemented. The target set for 2023, was the decrease of NPEs by 29% from €65,3 million at the end of 2022 to €46,7 million by the end of 2023. During 2023 as a result of the implementation of internal actions defined in the NPE Plan for 2023, and the lower than projected level of new NPE inflows, the 2023 NPE target was exceeded, with NPEs decreasing by 37% from €65,3 million to €41,2 million. Furthermore, the NPE ratio on a gross basis decreased from 26,2% at the end of 2022 to 19,6% at the end of 2023, while on a net basis the NPE ratio decreased from 16,0% at the end of 2022 to 12,6% at the end of 2023. The NPE Plan for 2024 sets a target for decrease of NPEs by 20%, from €41,2 million at the end of 2023 to €32,6 million at the end of 2024 entirely through internal actions. The implementation of these actions is carefully monitored and recovery strategies and action plans are frequently reviewed and revised based on developments and results in order to promptly introduce corrective actions.

In 2023 the gross loan portfolio of the Bank decreased by 16% from €249,8 million as at 31 December 2022 to €210,0 million as at 31 December 2023. The decrease in gross loans and advances is largely attributable to resolutions of non-performing loans during the year, which is reflected in the yoy decrease of gross NPEs by 37%. Gross performing loan portfolio decreased by 8% during the year, as repayments exceeded new lending. The Group remains focussed on the prudent growth of its loan portfolio through strict underwriting standards. Early on in 2024, the Bank initiated the conduct of an independent review of its loan origination process in order to identify and rectify weaknesses and also to streamline and expedite the process.

During 2023 there was a fast and sharp rise in ECB interest reference rates, which led to a substantial increase in the Group’s net interest income. The structure of the Group’s balance sheet is highly liquid and benefitted immediately from the interest rate rises with income from liquid funds for 2023 reaching €9,3 million compared to €0,8 million for 2022. The repricing of the ECB reference rates, also had a positive impact on the interest income from loans especially considering that c. 90% of the Group’s performing loan portfolio is Euribor based. Consequently, the net interest income from loans reached €13,7 million in 2023 compared to €9,2 million for 2022. The total net interest income more than doubled in 2023 reaching €21,8 million compared to €9,9 million in 2022, with the increase also being supported by the low cost of deposits.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

Market expectations, going forward, indicate that ECB reference rates will start to decline in 2024. The declining interest rates combined with the gradual increase of cost of deposits is expected to impact the Group's net interest income in 2024.

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. Despite the successive increases of interest rates by ECB in the second half of 2022 and throughout 2023 there was a time lag in the repricing of client deposits which contributed in the maintenance of cost of deposits at low levels during 2023. From the last quarter of 2023 there has been a gradual increase in the cost of deposits as well as a shift of sight accounts to term-deposits. Management monitors closely its deposit base along with market developments regarding cost of deposits.

The Group offers asset management, 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 technological infrastructure and systems that support the implementation of its business strategy. Main actions include upgrading of the core banking system and introduction of peripheral systems to enhance automation of processes.

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 branches, 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", "Board of Directors" and "Board" in the Financial Statements) are set out on page 3.

All of them were members of the Board throughout the year 2023.

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2024, 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.

RELATED PARTY TRANSACTIONS

Disclosed in Note 42 to the consolidated and separate Financial Statements.

EVENTS AFTER THE REPORTING PERIOD

Disclosed in Note 45 to the consolidated and separate Financial Statements.

MANAGEMENT REPORT (continued)

INDEPENDENT AUDITORS

The independent auditors of the Group, Deloitte Limited, have informed the Bank of their willingness to continue in office and a resolution authorising the Management Body to fix their remuneration will be submitted to the Annual General Meeting.

By the order of the Management Body

Christodoulos Patsalides
Chairman

Nicosia, 13 May 2024

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 Arrangements is to ensure compliance with the applicable legal and regulatory requirements. The Group was in 2023 subject to the CBC Directive on Internal Governance of Credit Institutions (the 'CBC Governance Directive') and the CBC Directive on the Assessment of the Suitability of Members of the Management Body and Key Function Holders (the 'CBC Directive on Suitability').

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

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.

Corporate governance principles are constantly evolving, and the Board is committed to monitoring and reviewing the Bank’s corporate governance arrangements accordingly through review and challenge.

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 Strategy Committee ('the SC'). 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.

2. Board of Directors

The authorities of the members of the Board of Directors 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 objectives and the risk appetite to support the strategy implementation.

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

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 behaviour, within a framework of prudent and effective controls, which enable risks 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;
- 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's 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 members of the Board 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 and 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.

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

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

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 Chairperson oversees the Board's operation and effectiveness, ensures the agenda covers the key strategic items, sets the style and tone of Board discussions, encourages the active participation of members of the Board in the discussions and activities of the Board and sets clear expectations regarding the Group's culture, values and behaviour. The Chairperson also ensures that there is effective communication with shareholders and promotes compliance with corporate governance standards.

Role of the CEO

The CEO is responsible for the execution of the approved strategy and has ultimate executive responsibility for the Group's operations, performance and compliance.

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.

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.

2.2. Composition of the Management Body

As at 31 December 2023 the Board comprised of ten (10) Directors: the Chairman who is independent, two (2) Executive Directors and seven (7) Non-Executive Directors. Six (6) of the Non-Executive Directors were independent. The names and brief biographical details including each Director's background, experience and status are set out in section 4 below.

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

The composition of the Board should be appropriate in terms of structure, size, tenure, skills, knowledge, experience and diversity 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.

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 Nomination and Remunerations Committee which makes recommendations to the Board as required.

The members of the Board of Directors are required to confirm, on an annual basis, any changes in their circumstances in respect of their compliance with the CBC Suitability Directive.

2.2.1. Meetings of the Management Body

The Board prepares an annual Schedule of Board meetings. All members of the Board have the opportunity to provide input in the formulation of the Schedule. The process aims to ensure that sufficient time is allocated to important matters and that regulatory obligations 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 on key initiatives from the CEO and other senior management members.

During 2023 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.

		Committees					
	MB	Risk	Audit	NR	Joint Risk& Audit	Credit	Strategy
Total Meetings - 2023	**16**	**10**	**9**	**4**	**3**	**5**	**2**
Christodoulos Patsalides	15	-	-	4	-	-	2
Avgoustinos Papathomas	14	-	9	3	3	5	2
Christodoulos Plastiras	15	9	9	-	3	5	2
Stalo Koumidou	14	9	-	1	3	5	-
Andreas Hadjikyrou	14	8	-	4	3	5	2
Konstantinos Mitropoulos	15	9	-	4	3	-	2
Dimitrios Sioufas	16	-	9	1	3	5	-
Demetris Sparsis	15	3	9	-	3	-	-
Loucas Marangos	16	-	-	-	-	-	-
Stella Avraam	15	-	-	-	-	-	-

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)

Note
Credit Committee - Ceased on 30.6.2023
Strategy Committee - Established on 01.7.2023

In the evaluation of the structure and composition of Committees cross committee membership is considered an 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 below table shows the number of cross memberships of Non Executive Directors across Board Committees as at 31 December 2023.

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. Meetings packs are typically uploaded sufficiently in advance of the meetings and communicated to all members of the Board via a secure electronic Board portal to ensure they have sufficient time to review the matters which are to be discussed and to seek clarifications or any additional information they may require.

Committee meetings are held prior to Board meetings with the chairperson of each Committee reporting matters discussed to the Board. Topics for deep dives or additional items are discussed when required and include business, governance and regulatory update.

Cross Committee Membership Matrix

	Audit Committee (4 Members)	Risk Committee (5 Members)	Nomination and Remunerations Committee (5 Members)	Strategy Committee (5 Members)
Audit Committee	N/A	2	1	2
Risk Committee	2	N/A	3	3
Nomination and Remunerations Committee	1	3	N/A	3
Strategy Committee	2	3	3	N/A

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.

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.2. Cross Committee Membership Matrix (continued)

The Board's policies and procedures set additional specific requirements relating to Directors' conflicts of interest and sets out how these are to be reported and managed to ensure that the Directors act at all times in the best interests of the Bank.

For Directors interest, directly or indirectly in any contract of significance with the Group refer to Note 42 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 chairpersons 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 may hold positions on the Boards of other companies. Such participation should not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Bank and should be in line with the requirements of the CBC Suitability Directive. Additional external appointments require the prior approval of the Board. It is estimated that in 2023, 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 2023 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.

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 of Directors. It is responsible for the appointment of Directors. All appointments are made on merit against objective criteria (including skills and experience) with a view 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 their appointment, including the specific role requirements and obligations as well as the time commitment anticipated.

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 sufficient 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 are arranged for newly appointed Directors. Training includes 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 risks of the Group and the risk management Framework.

In addition, training based on the Director's individual needs is provided.

On appointment all members of the Board are provided with an information pack which includes, among other things, 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.

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.

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)

During 2023, reading material and training sessions were provided to Directors, amongst other, on banking sector developments, risk management practices and governance, Climate and Environmental related-risks, digital transformation of the banking sector, IFRS 9 impairment policies and methodologies, economics of NPE resolution and strategies, BRRD, business planning as well as capital and funding plans.

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 committees 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, 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.

The Board is subject to external evaluation every three years. The last external review was conducted in 2022. The Board also conducted an internal evaluation in December 2023. The review included an evaluation of the Board, each Committee, the Chairman and each Director through the completion of a series of online questionnaires. The Directors' views on a range of issues including amongst others 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 were obtained and assessed. The assessment also included a collective 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 Chairperson of each Board Committee led the review of the results of the self-assessment process in respect of committee performance.

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

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.3. Board Performance Evaluation (continued)

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 42 to the Financial Statements for the year ended 31 December 2023.

The CBC Directives set specific requirements and limits for the extension of credit to members of the Board and their related parties. The Board has set specific procedures for the approval and monitoring of such exposures.

The credit facilities to Directors (and related parties) 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 bank facilities to Company Directors and its subsidiary Company Directors should be forwarded for approval to the Board. The interested member of the Board is neither present nor participates in the procedure.

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;
- 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;

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

- Board and Executive Committees with clear responsibilities;
- Policies and procedures;
- Conflicts of Interest Policy;
- 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, internal and external audit reports, as well as regulatory reports from the Group's Internal Auditor, the Head of Compliance and the Head of Risk Management and Information Security.

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.

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 Group's 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 the Code of Conduct along with guidance on how these standards should be applied.

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:

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

3.1. Group code of conduct and whistleblowing policy (continued)

- 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)
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 Master's in Economics from London University.

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

Avgoustinos Papathomas (Senior Independent Member)
He is a Senior Partner of FRP Advisory (Cyprus) and APP Audit. He holds a BSc and BEng in Engineering Manufacture and Management from U.M.I.S.T the University of Manchester. 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. He has served as a Director on various organizations and is currently the Vice-President-Services of the Cyprus 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 and as Senior Independent Member on 8 May 2019 and 2 August 2022 respectively.

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Avgoustinos Papathomas (Senior Independent Member) (continued)
Member of a Board Committee:
- Chairman of the Audit Committee
- Strategy Committee

Christodoulos Plastiras
He is an enthusiastic entrepreneur with extensive knowledge in Banking, Technology, Finance and Business. 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. 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. He holds a Bachelor's degree in Computer Science from the University of Cambridge and a Master's degree in Finance from Imperial College.

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

Stalo Koumidou
She is an independent financial advisor. She has extensive experience covering all aspects of the financial sector, with dedicated expertise in the local and European capital and debt markets, public takeovers, investment banking transactions and corporate financial advisory. She also possesses in depth knowledge of the EU harmonised regulatory environment for investment firms, publicly listed entities and funds. Holds a BSc (Hons) Financial and Business Economics from Royal Holloway University of London and an MSc Finance and Economics from London School of Economics and Political Science. She is a member of the Board of Directors of Cosmos Insurance Public Company Ltd.

Term of Office: Appointed to the Board of Directors on 2 February 2022
Independent: Yes
Member of a Board Committee:
- Risk Committee
- Nomination and Remunerations Committee

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Andreas Hadjikyrou
He is the founder of 7Q Investment Group a leading boutique asset manager and institutional investor. Currently he is the Chief Investment Officer of 7Q Asset Management Ltd, responsible for implementing the general investment policy for each managed AIF as well as the overall strategic asset allocation and tactical investment strategy. He brings in excess of twenty years of experience in the field of Asset Management, Investments and Finance. He played a leading role in expanding the 7Q Investment Group overall footprint on the institutional investors landscape in Cyprus, including creating the biggest Cyprus AIF investing in local assets. He is a holder of a BSc in International Business Administration from the University of Northumbria of Newcastle, UK and an MBA in International Banking and Finance from the University of Birmingham, UK.

Term of Office: Appointed to the Board of Directors on 3 March 2022
Independent: No
Appointed as Vice-Chairman on 2 August 2022
Member of a Board Committee:
- Nomination and Remunerations Committee
- Risk Committee
- Strategy Committee

Konstantinos Mitropoulos
He is currently a member of the Board of Directors of the listed companies PLAISIO S.A., MOTODYNAMICS S.A. and of ELTRAK S.A. and the Foundation for Economic and Industrial Research (IOBE). He has served as Chairman of the Board of Directors of ATTICA BANK, as Chief Executive Officer at PQH, the Single Special Liquidator of 16 failed banks and as Executive Director and Executive Board Member of PwC Greece. He was the first Chief Executive Officer of the Hellenic Republic Asset Development Fund, the privatisation agency, Executive Chairman of Eurobank EFG Equities and the founder and Executive Chairman of KANTOR Management Consultants S.A. He has served as a member of the Board of Directors of the Hellenic Bank Association, the Athens Stock Exchange, NIKAS S.A., Logic DIS S.A. and was a long-standing member of the Global Advisory Council of the London Business School. He is a mechanical and electrical engineer from the National Technical University of Athens, with post graduate studies in Business Administration and Economics, holding an MSc from Imperial College and a PhD from the London Business School.

Term of Office: Appointed to the Board of Directors on 29 April 2022
Independent: Yes
Member of a Board Committee:
- Chairman of the Nomination and Remunerations Committee
- Risk Committee
- Strategy Committee

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Dimitrios Sioufas
He is an experienced attorney with specialisation in the shipping sector, working for the last 15 years for Theo V. Sioufas & Co. Law office, a well-established legal network with presence in Greece, Cyprus, China and Singapore. He is also the founding partner and chief representative for the China and Singapore offices. His extensive professional expertise in the shipping sector includes ship finance, banking and finance law, corporate law, contract law, international trade law, vessel flag registration and vessel sale and purchase. He holds an MSc in Business and Administration for Law Practitioners from ALBA Graduate Business School and LLBs, a Bachelor of Laws from the National and Kapodistrian University of Athens and University of Greenwich, and he is a member of both the Greek and Cyprus Bar Associations.

Term of Office: Appointed to the Board of Directors on 29 June 2022
Independent: Yes
Member of a Board Committee:
- Audit Committee
- Nomination and Remunerations Committee

Demetris Sparsis
He has more than 30 years of extensive financial markets experience in the areas of banking, insurance and investments. He worked in the Cypriot banking sector and served in various managerial positions as Head of the Insurance Division, Corporate Affairs Manager and Branch Network Manager. He is also a member of the Board of Directors of NAGA Markets Europe Ltd. He holds an MSc in Tourism, Marketing, Planning and Development from the University of Surrey in UK and a BA in Economics -Business Administration from the State University of New York at Albany, USA.

Term of Office: Appointed to the Board of Directors on 14 November 2022
Independent: Yes
Member of a Board Committee:
- Audit Committee
- Risk Committee

4.2. Executive Directors

Loucas Marangos (Executive Director – CEO)
He is the Chief Executive Officer and Executive Member of the Board since July 2021. He has a strong financial markets experience and in-depth knowledge of local and overseas financial markets. He is a member of the Board of Directors of the Association of Cyprus Banks (ACB), member of the Board of Directors of the Employers' Association of Cyprus Banks and Vice-chairman of the Cyprus Institute of Financial Services (CIFS). He holds a BSc in Accounting and Finance from London School of Economics and an MBA from Imperial College London.

Term of Office: Appointed to the Board of Directors on 21 July 2021
Independent: No
Member of a Board Committee: None

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.2. Executive Directors (continued)

Stella Avraam (Executive Director – Group CFO)
She is the Chief Financial Officer of the Bank since October 2016 and Member of the Board since September 2019. She was the Chief Accountant since January 2009. 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 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.

Term of Office: Appointed to the Board of Directors 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 SC. 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 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)

As at 31 December 2023, the NRC comprised five (5) Non-Executive Directors, four (4) of whom were independent. Members of the Committee are also members of the Risk, Audit and Strategy Committees.

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

The Committee held 4 meetings in 2023. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

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

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:

- 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;
- Succession planning for Directors and senior management;
- 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;
- Propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies;
- Set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues;
- 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 are fully informed of the Committee's activities.

5.2. Audit committee (AC)

As at 31 December 2023, the AC comprised of four (4) independent Directors. Members of the Committee are also Members of the Risk, Nomination and Remunerations and Strategy Committee. The Chairman of the Committee, has extensive experience in the audit profession.

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

The Committee held 9 meetings in 2023. 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.

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.2. Audit committee (AC) (continued)

The role of the Committee, inter alia, is:

- 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 Departments 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)

As at 31 December 2023, the RC comprised five (5) Non-Executive Directors, four (4) of whom were independent. Members of the Committee are also Members of the Audit, the Nomination and Remunerations, and Strategy Committees.

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.3. Risk committee (RC) (continued)

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).

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

The Committee held 10 meetings in 2023. 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, climate and environmental related risks 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 38 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. Strategy Committee (SC)

The SC is responsible for advising the Board on strategy formulation and monitoring.

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.4. Strategy Committee (SC) (continued)

The SC was established on 1 July 2023. On 31 December 2023, comprised five (5) Non-Executive Directors, of whom four (4) were independent. Members of the Committee are also Members of the Audit, Risk and Nomination and Remunerations Committees. Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 2 meetings in 2023. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

Information relating to Strategy is set out in Note 38 to the Financial Statements.

The main purpose of the Committee is to provide direction and support to the CEO and Senior Management for the formulation of the overall business strategy of the Bank and of initiatives of strategic importance which affect the position and dynamics of the Bank in the market. More specifically, the Committee is responsible to:

- Formulate and recommend to the BoD the strategy, business plan, specific strategic initiatives across all functions, mergers and acquisitions, disposals and servicing of NPEs, sales of subsidiaries and any major P&L and balance sheet affecting moves/transactions;
- Ensure that the annual Budget is consistent with the strategy and all approved strategic initiatives/moves are part of the budgetary cycle;
- Review the overall progress annually and monitor the progress of designated high significance initiatives/moves outside the budgetary cycle, and report to the BoD.

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

6. Remuneration policy

In developing its Remuneration Policy, the Group considers the provisions that are included in the CBC Governance Directive.

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.

CORPORATE GOVERNANCE REPORT (continued)

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.

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 41 to the Financial Statements.

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Independent Auditor's Report

To the Members of The Cyprus Development Bank Public Company Limited

Report on the Audit of the Consolidated and 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 in pages 41 to 161 and comprise the consolidated and separate statement of financial position as at 31 December 2023, and the consolidated and separate income statements and consolidated and separate statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated and separate financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and the Bank as at 31 December 2023, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

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

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

Key audit matters	How our audit addressed the Key audit matters
Impairment losses for loans and advances to customers	
Loans and advances to customers held at amortised cost amounted to €190.484 thousand as at 31 December 2023 (2022: €216.229 thousand), net of impairment losses of €19.341 thousand (2022: €33.293 thousand). The Group and the Bank calculate expected credit losses ("ECL") on loans and advances to customers (accumulated impairment losses) on both an individual and on a collective basis. The recognition of ECL under IFRSs is a complex accounting policy, which requires considerable judgement in its implementation and consequently we have considered this to be a key audit matter. ECL is dependent on management's judgement in determining the staging classification of credit facilities through assessing significant increase in credit risk (SICR) and credit-impairment status (default), development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures. In calculating expected credit losses, the Group and the Bank consider credit quality indicators for each loan and portfolio, stratify credit facilities by risk grades and estimate expected credit losses for each facility, individually or collectively, based upon their nature and risk profile. Auditing these complex judgements and assumptions involves especially challenging auditor judgement due to the nature and extent of audit evidence and effort required to address these matters. The estimate of expected credit losses on loans and advances to customers is considered a key audit matter given the magnitude of the specific account balance, the high degree of judgement exercised by management and the existence of estimates with a significant level of subjectivity and complexity. Key judgements applied and estimates made in respect of the timing and measurement of ECL include: • The criteria and assumptions used for the classification of loans and advances into stages (stage 1, 2 and 3), • Identification of significant increase in credit risk, • Accounting interpretations, assumptions and input data used in the models that calculate the ECL, including the assumptions relating to the estimation of probability of default, loss given default and exposure at default,	Our audit procedures relating to this matter included, inter alia, the following: • We gained an understanding of the methodologies, interpretations and policies adopted by management in relation to the calculation of ECL on loans and advances to customers. • We assessed the impairment provisioning methodologies and policies adopted by the Group and the Bank, as well as the conceptual framework used for developing these methodologies and policies, against the requirements of IFRSs. • We assessed the internal controls relevant to the determination of ECL, including controls over methodologies, judgements and estimates applied by management, as well as internal controls over the valuation of collaterals, to determine if these controls had been appropriately designed and implemented. In addition, we assessed the operating effectiveness of internal controls relevant to the staging classification of loans and the measurement of the ECL of credit impaired loans that have been individually assessed for impairment according to Group's and Bank's methodology. • For collectively assessed loans and advances to customers, with the support of our internal credit risk specialists, we evaluated the assumptions used in the calculation of ECL and we tested the completeness and accuracy of material inputs. In addition, we independently performed ECL recalculation and compared against Group's and Bank's own calculations. • We assessed the macroeconomic variables used in the models, the scenarios and the probability weights applied on them. • On a sample basis, we assessed the significant assumptions used in the measurement of ECL on individually assessed exposures, including the assumptions over valuation of collaterals, future realizable value of collaterals and timing of expected future cash flows.

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

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

Key audit matters	How our audit addressed the Key audit matters
Impairment losses for loans and advances to customers (continued)	
• Assumptions for determination of expected future cash flows of individually assessed exposures, including the selection of assessment approach and valuation and time of realisation of collaterals, • The parameters and the assumptions used in the determination of the macroeconomic scenarios and the respective weighted probabilities applied, • The adjustments made by management on the ECL models in order to address model limitations, as well as to incorporate events that are not reflected in the models. These post model adjustments involve inherent uncertainty and significant level of management judgement. Further information relating to ECL on loans and advances to customers is included in notes 3.12, 4.2, 18 and 38.1 to the consolidated and separate financial statements.	• On a sample basis, with the support of our real estate specialists, we assessed the appropriateness of the assumptions and data used in the valuation of the collateral properties. • We assessed the criteria and significant assumptions used by management for the staging classification of loans and advances to customers against the criteria specified within IFRSs. This included an assessment of the criteria set by management for the timely recognition of the significant increase in credit risk. We assessed, on a sample basis, the timely identification of exposures with significant increase in credit risk and the timely identification of credit impaired exposures. • We assessed the post model adjustments, taking into account the data, judgements, methodology and governance over these adjustments. • We assessed the disclosures in the consolidated and separate financial statements relating to this matter against the requirements IFRSs. The above audit procedures were completed in a satisfactory manner.
Going Concern	
The Board of Directors of the Bank concluded that the adoption of the going concern basis in preparing these financial statements is appropriate and that no material uncertainties exist relating to events or conditions that individually or collectively may cast significant doubt on the Group's and Bank's ability to continue as a going concern. In assessing whether the going concern basis of preparation is appropriate, management takes into account all available information about the future for at least twelve months from the date of approval of these financial statements and recent approved business and financial plan, including stress scenarios and the evolution of the current and future regulatory capital and liquidity ratios against minimum regulatory requirements.	Based on our risk assessment and following a risk-based approach, we performed, inter alia, the following audit procedures with the support of our capital management and regulatory support specialists: • We gained an understanding of the management process relating to the development of the financial and business plan and assessed management's ability to develop the forecast. • We assessed the controls over management's assessment of going concern to determine if they had been appropriately designed and implemented. • We obtained the Board of Directors' going concern assessment and assessed whether events or conditions exist which may give rise to material uncertainties that may cast significant doubt on the Group's and Bank's ability to continue as a going concern.

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

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

Key audit matters	How our audit addressed the Key audit matters
Going Concern (continued)	
The development of forecasted financial and capital plan, performance, the stress scenarios and future course of action require significant management judgement and consideration of the impact of any risks and uncertainties arising from the geopolitical tensions in Eastern Europe and Middle East, as well as from the current economic environment (increased base interest rates, inflation and energy prices). We have considered the Group's and Bank's assessment on the going concern assumption as a key audit matter due to the ongoing focus on the capital adequacy for the Group and Bank, as well as the judgements and assumptions incorporated in the forecasts where the going concern assessment is based on. Refer to notes 2.1 and 38.5 of the consolidated and separate financial statements for the basis of preparation of the consolidated and separate financial statements and further details in relation to capital and liquidity management.	• We reviewed correspondence with the Central Bank of Cyprus ("CBC") regarding the regulatory capital and liquidity requirements, and other correspondence with Supervisory Review and Evaluation Process (SREP) regarding required capital regulatory ratios. • We obtained and evaluated the key assumptions employed by management to prepare the financial plan used by management in the going concern assessment. Our assessment focused on the future action plans and reasonableness of assumptions used for estimates of income generation, planned capital investment, level of loan origination and customer deposits, associated funding costs, and evolution of non-performing exposures and provisions for impairment. We also evaluated the Group's ability and action plan to meet target of minimum requirements for own funds and eligible liabilities ("MREL"). • We obtained and reviewed the management accounts of the Group and the Bank for the first quarter of the year 2024 and we assessed their consistency with the financial plan used by the Group and the Bank to support the going concern basis of preparation. • We reviewed and challenged the stressed scenarios performed by management on the main assumptions reflected in the financial plan. • We examined the methodology used to calculate regulatory capital ratios and reperform calculations of the capital adequacy ratios of the Group as at 31 December 2023. We also evaluated the methodology used to calculate capital adequacy ratios for the forecast period of the next two years included in the going concern assessment and compared against regulatory requirements of the Bank. • We assessed the disclosures in the consolidated and separate financial statements relating to this matter against the requirements of IFRSs. The above audit procedures were completed in a satisfactory manner.

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Reporting on other information

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

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.

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. We have nothing to report in this regard.

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 IFRSs as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated 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 the Board of Directors either intends to liquidate the Group and the Bank or to cease operations, or has 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.

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

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

- Identify and assess the risks of material misstatement of the consolidated 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.

Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

- 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 auditor's 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 auditor's 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 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 within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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 though 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 year and are therefore the key audit matters.

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

1. Appointment of the auditors and period of engagement

We were first appointed as auditors on 11 June 2021 by the Annual General Meeting of the Bank's members, after the submission of related suggestion by the Board of Directors of the Bank. We have been reappointed as auditors for the year 2023 in the Annual General Meeting of the shareholders of the Bank on 31 July 2023. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of two years.

2. 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 to the Audit Committee of the Bank, which we issued on 13 May 2024 in accordance with Article 11 of the EU Regulation 537/2014.

3. Provision of Non-Audit Services

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

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Report on other legal and regulatory requirements

Other legal requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated and separate financial statements.
- In light of the knowledge and understanding of the Group, the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the Corporate Governance Report in accordance with the requirements of subparagraphs (iv) and (v) of the paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and is consistent with the consolidated and separate financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the Corporate Governance Report includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of the paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap 113,
- In light of the knowledge and understanding of the Group, the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Corporate Governance Report in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other matters

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

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

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Andreas Georgiou
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

Limassol, 13 May 2024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
Turnover		27.665	14.968
Interest income calculated using the effective interest method	5	23.898	10.940
Interest expense calculated using the effective interest method	6	(2.109)	(1.055)
Net interest income		21.789	9.885
Fee and commission income	7	3.381	3.589
Fee and commission expense	8	(381)	(600)
Net foreign exchange gains	9	(11)	39
Other income	10	397	400
Total net income		**25.175**	**13.313**
Staff costs	11	(8.497)	(8.044)
Other operating expenses	12	(4.224)	(3.508)
Special levy on deposits and other levies/contributions	12	(896)	(818)
Depreciation	13	(812)	(833)
Profit before provisions for impairment		**10.746**	**110**
Provisions for impairment	14	(3.682)	(164)
Profit/(loss) after provisions for impairment		**7.064**	**(54)**
Share of profit/(loss) from associates	22	2	(1)
Profit/(loss) before tax		**7.066**	**(55)**
Tax	15	(106)	19
Profit/(loss) for the year after tax		**6.960**	**(36)**
Profit/(loss) for the year attributable to:			
Owners of the Bank		6.957	(39)
Non-controlling interests		3	3
Profit/(loss) for the year		**6.960**	**(36)**
Basic and fully diluted earnings/(loss) per share (cent)	16	16,08	(0,09)

The notes on pages 52 to 161 form an integral part of the financial statements.

INCOME STATEMENT

For the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
Turnover		27.211	14.252
Interest income calculated using the effective interest method	5	24.078	11.211
Interest expense calculated using the effective interest method	6	(2.106)	(1.051)
Net interest income		21.972	10.160
Fee and commission income	7	2.978	2.985
Fee and commission expense	8	(334)	(389)
Net foreign exchange gains	9	(6)	31
Other income	10	161	25
Total net income		**24.771**	**12.812**
Staff costs	11	(8.231)	(7.754)
Other operating expenses	12	(4.011)	(3.343)
Special levy on deposits and other levies/contributions	12	(896)	(818)
Depreciation	13	(811)	(832)
Profit before provisions for impairment		**10.822**	**65**
Provisions for impairment	14	(3.783)	(88)
Profit/(loss) before tax		**7.039**	**(23)**
Tax	15	(106)	19
Profit/(loss) for the year after tax		**6.933**	**(4)**
Basic and fully diluted earnings/(loss) per share (cent)	16	16,02	(0,01)

The notes on pages 52 to 161 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
Profit/(loss) for the year		**6.960**	**(36)**
Other comprehensive income (OCI)			
Items that are or may be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net gains/(losses) on investments in debt instruments measured at fair value through OCI (FVOCI)	20	56	(248)
Total OCI that may be reclassified in the consolidated income statement in subsequent periods		**56**	**(248)**
OCI items not to be reclassified in the consolidated income statement in subsequent periods			
Property revaluation reserve			
Gains from revaluation of premises	23	257	-
Deferred tax on revaluation of premises	29	(27)	26
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		**230**	**26**
Other comprehensive income/(loss) for the year net of taxation		**286**	**(222)**
Total comprehensive income/(loss) for the year		**7.246**	**(258)**
Attributable to:			
Owners of the Bank		7.243	(261)
Non-controlling interests		3	3
Total comprehensive income/(loss) for the year		**7.246**	**(258)**

The notes on pages 52 to 161 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
Profit/(loss) for the year		**6.933**	**(4)**
Other comprehensive income (OCI)			
Items that are or may be reclassified in the income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net gains/(losses) on investments in debt instruments measured at fair value through OCI (FVOCI)	20	56	(248)
Total OCI that may be reclassified in the income statement in subsequent periods		**56**	**(248)**
OCI items not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net gains/(losses) from revaluation of subsidiaries	21	226	(22)
		226	**(22)**
Property revaluation reserve			
Gains from revaluation of premises	23	257	-
Deferred tax on revaluation of premises	29	(27)	26
		230	**26**
Total OCI not to be reclassified in the income statement in subsequent periods		**456**	**4**
Other comprehensive income/(loss) for the year net of taxation		**512**	**(244)**
Total comprehensive income/(loss) for the year		**7.445**	**(248)**

The notes on pages 52 to 161 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	Note	2023 €'000	2022 €'000
ASSETS			
Cash and balances with central banks	17	300.407	220.364
Balances with other banks	17	2.356	2.250
Investments in debt securities	20	45.356	90.229
Loans and advances	18	190.484	216.229
Investments in equities	19	346	142
Investments in associates	22	744	670
Stock of property	25	8.579	8.633
Receivables and other assets	26	1.922	1.941
Premises and equipment	23	6.746	6.386
Intangible assets	24	593	671
Tax receivable		279	-
Total assets		**557.812**	**547.515**
LIABILITIES			
Bank borrowings	27	1.921	2.328
Client deposits	28	489.423	486.841
Deferred taxation	29	314	301
Accruals and other liabilities	30	8.968	8.355
Loan capital	32	11.261	11.261
Total liabilities		511.887	509.086
EQUITY			
Share capital	33	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	14.653
Reserves		6.328	(1.126)
Equity attributable to owners of the parent company		45.684	38.230
Non-controlling interests		241	199
Total equity		45.925	38.429
Total liabilities and equity		**557.812**	**547.515**
Contingent liabilities and commitments	34	58.011	50.937

These Consolidated Financial Statements have been approved and authorised for issue by the ~~Management Body~~ on 13 May 2024.

Mr. Christodoulos Patsalides
Chairman of the Board

Mr. Avgoustinos Papathomas
Member of the Board

Mr. Loucas Marangos
Member of the Board and Chief Executive Officer

Ms. Stella Avraam
Member of the Board and Chief Financial Officer

The notes on pages 52 to 161 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	Note	2023 €'000	2022 €'000
ASSETS			
Cash and balances with central banks	17	300.407	220.364
Balances with other banks	17	2.146	2.115
Investments in debt securities	20	45.356	90.229
Loans and advances	18	190.484	216.229
Investments and exposures in subsidiary companies	21	4.006	5.700
Stock of property	25	6.028	3.971
Receivables and other assets	26	1.174	972
Premises and equipment	23	6.745	6.384
Intangible assets	24	593	670
Tax receivable		279	-
Total assets		**557.218**	**546.634**
LIABILITIES			
Bank borrowings	27	1.921	2.328
Client deposits	28	489.423	486.841
Deferred taxation	29	314	301
Accruals and other liabilities	30	8.589	7.638
Loan capital	32	11.261	11.261
Total liabilities		511.508	508.369
EQUITY			
Share capital	33	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	14.653
Reserves		6.354	(1.091)
Total equity		45.710	38.265
Total liabilities and equity		**557.218**	**546.634**
Contingent liabilities and commitments	34	58.011	50.937

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

2023	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 2023	8.655	16.048	14.653	1.629	(2.755)	38.230	199	38.429
Correction in opening balance of subsidiaries reserves	-	-	-	-	211	211	39	250
Restated balance 1 January 2023	8.655	16.048	14.653	1.629	(2.544)	38.441	238	38.679
Total comprehensive income after taxation								
Profit for the year	-	-	-	-	6.957	6.957	3	6.960
Other comprehensive income	-	-	-	286	-	286	-	286
Total comprehensive income	-	-	-	286	6.957	7.243	3	7.246
Transfers between reserves								
Excess depreciation on revaluation surplus	-	-	-	(17)	17	-	-	-
Total transfers between reserves	-	-	-	(17)	17	-	-	-
Balance 31 December 2023	**8.655**	**16.048**	**14.653**	**1.898**	**4.430**	**45.684**	**241**	**45.925**

The notes on pages 52 to 161 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

2022	Attributable to the parent company's owners						Non-controlling interests	Total
	Share capital	Share premium	Capital reduction reserve fund	Revaluation reserve	Revenue reserve	Total		
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance 1 January 2022	8.655	16.048	14.653	1.863	(2.536)	38.683	203	38.886
Correction in opening balance of subsidiaries reserves	-	-	-	-	(176)	(176)	(4)	(180)
Restated balance 1 January 2022	8.655	16.048	14.653	1.863	(2.712)	38.507	199	38.706
Total comprehensive (loss)/income after taxation								
(Loss)/profit for the year	-	-	-	-	(39)	(39)	3	(36)
Other comprehensive loss	-	-	-	(222)	-	(222)	-	(222)
Total comprehensive (loss)/income	-	-	-	(222)	(39)	(261)	3	(258)
Transfers between reserves								
Excess depreciation on revaluation surplus	-	-	-	(12)	12	-	-	-
Total transfers between reserves	-	-	-	(12)	12	-	-	-
Transactions with owners of the Bank - contributions and distributions								
Contribution to defence fund on deemed dividend distribution of 2019 dividends	-	-	-	-	(16)	(16)	(3)	(19)
Total contributions and distributions	-	-	-	-	(16)	(16)	(3)	(19)
Balance 31 December 2022	**8.655**	**16.048**	**14.653**	**1.629**	**(2.755)**	**38.230**	**199**	**38.429**

The notes on pages 52 to 161 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

2023	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2023	8.655	16.048	14.653	478	(1.569)	38.265
Total comprehensive income after taxation						
Profit for the year	-	-	-	-	6.933	6.933
Other comprehensive income	-	-	-	512	-	512
Total comprehensive income	-	-	-	512	6.933	7.445
Transfers between reserves						
Excess depreciation on revaluation surplus	-	-	-	(17)	17	-
Total transfers between reserves	-	-	-	(17)	17	-
Balance 31 December 2023	**8.655**	**16.048**	**14.653**	**973**	**5.381**	**45.710**

2022	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2022	8.655	16.048	14.653	734	(1.577)	38.513
Total comprehensive loss after taxation						
Loss for the year	-	-	-	-	(4)	(4)
Other comprehensive loss	-	-	-	(244)	-	(244)
Total comprehensive loss	-	-	-	(244)	(4)	(248)
Excess depreciation on revaluation surplus	-	-	-	(12)	12	-
Balance 31 December 2022	**8.655**	**16.048**	**14.653**	**478**	**(1.569)**	**38.265**

Share capital

There were no changes in the share capital of the Group and the Bank during the years ended 31 December 2023 and 31 December 2022.

Share premium

Share premium is not available for distribution.

Capital reduction reserve fund

Capital reduction reserve fund is not available for distribution.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is not available for distribution.

The notes on pages 52 to 161 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group profit/(loss) for the year		6.960	(36)
Adjustments for:			
Net interest from debt securities		(913)	(491)
Premium/discount amortisation on debt securities		589	353
Interest on loan capital	6	460	452
Profit on disposal/write off of premises and equipment	13	-	(5)
Gain on revaluation of investments at FVTPL	10	(26)	(11)
Depreciation of premises and equipment	13	458	456
Amortisation of intangible assets	13	354	377
Net foreign exchange gains		57	(39)
Provisions for impairment	14	3.682	164
Interest expense on lease liability	6	22	30
Profit from disposal of subsidiary	10	-	(132)
Share of loss from associate		(2)	1
Tax	15	106	(19)
		11.747	1.100
Change in:			
Obligatory balances with Central Bank		(127)	(217)
Loans and advances		22.570	(1.619)
Client deposits		2.582	49.033
Bank borrowings		(407)	(421)
Working capital and other items of the statement of financial position		(32)	(19.157)
Net cash from operating activities before tax		36.333	28.719
Taxes and special contributions paid		(400)	-
Net cash from operating activities		35.933	28.719
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	23	(271)	(158)
Proceeds from disposal of premises and equipment		-	11
Acquisition of intangible assets	24	(277)	(242)
Acquisition of debt securities	20	(17.861)	(229.538)
Proceeds from disposal/redemption of debt securities	20	62.271	250.369
Proceeds from disposal of subsidiaries		-	3.091
Net interest from debt securities		913	491
Net cash from investing activities		44.775	24.024
CASH FLOW FROM FINANCING ACTIVITIES			
Principal element of lease payments		(172)	(184)
Interest paid on loan capital		(460)	(452)
Net cash to financing activities		(632)	(636)
Net increase in cash and cash equivalents		80.076	52.107
Effect of exchange rate fluctuations on cash and cash equivalents		(54)	39
Cash and cash equivalents at the beginning of the year		218.055	165.909
Cash and cash equivalents at the end of the year	37	298.077	218.055

The notes on pages 52 to 161 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		6.933	(4)
Adjustments for:			
Net interest from debt securities		(913)	(491)
Premium/discount amortisation on debt securities		589	353
Interest expense on loan capital	6	460	452
Profit on disposal of premises and equipment	13	-	(5)
Depreciation of premises and equipment	13	457	455
Amortisation of intangible assets	13	354	377
Net foreign exchange gains		51	(31)
Provisions from impairment	14	3.783	88
Loss from disposal of subsidiary	10	-	29
Interest expense on lease liability	6	22	30
Tax	15	106	(19)
		11.842	1.234
Change in:			
Obligatory balances with Central Bank		(127)	(217)
Loans and advances		22.570	(1.619)
Client deposits		2.582	49.033
Bank borrowings		(407)	(421)
Working capital and other items of the statement of financial position		(208)	(19.343)
Net cash from operating activities before tax		36.252	28.667
Taxes and special contributions paid		(400)	-
Net cash from operating activities		35.852	28.667
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	23	(272)	(158)
Proceeds from disposal of premises and equipment		-	11
Acquisition of intangible assets	24	(277)	(241)
Acquisition of debt securities	20	(17.861)	(229.538)
Proceeds from disposal/redemption of debt securities	20	62.271	250.369
Proceeds from disposal of subsidiaries		-	3.091
Net interest from debt securities		913	491
Net cash from investing activities		44.774	24.025
CASH FLOW FROM FINANCING ACTIVITIES			
Principal element of lease payments		(172)	(184)
Interest paid on loan capital		(460)	(452)
Net cash to financing activities		(632)	(636)
Net increase in cash and cash equivalents		79.994	52.056
Effect of exchange rate fluctuations on cash and cash equivalents		(47)	28
Cash and cash equivalents at the beginning of the year		217.920	165.836
Cash and cash equivalents at the end of the year	37	297.867	217.920

The notes on pages 52 to 161 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 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 Group's Financial Statements have been prepared on a going concern basis following the assessment performed by the Board of Directors and Management on the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these Consolidated and Separate Financial Statements.

The Directors have considered the conditions that existed during 2023 and the developments up to the date of approval of these Consolidated and Separate 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.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, liquidity, capital requirements and capital resources taking into consideration the Group Business Plan for 2024-2026 approved by the Board in November 2023 (the "Plan") and the operating environment (as set out in Note 44). The Plan has used conservative economic inputs to develop the Group's medium term strategy and incorporates sensitivity scenarios to cater for downside risk and assesses how possible changes in some of the underlying assumptions used in the projections (higher risk weights, lower level of lending, outflows of deposits, lower margins on loans and higher cost of deposits), could impact the projected financial performance of the Group and its capital adequacy and liquidity. The Board and Management have paid particular attention to the challenges and uncertainties stemming from the macroeconomic developments (as set out in Note 44 - Operating environment) that may affect the application of the principle.

2.1.1 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.1 Capital (continued)

The Group's CET 1 ratio as at 31 December 2023 stood at 20,56% (2022: 16,04%), 997 bps above the minimum regulatory CET 1 ratio of 10,594%. The overall Capital Ratio (OCR) as at 31 December 2023 stood at 25,68% (2022: 20,72%), 918 bps above the minimum regulatory OCR of 16,50%. 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 for the period of assessment:

- The Group as at 31 December 2023 was in compliance with regulatory capital requirements having adequate buffers (Note 38.5).
- As part of its assessment the Board of Directors has considered the current and future regulatory capital requirements as explained below:
  - In the context of the annual SREP performed by CBC and based on the final 2021 SREP decision received on 8 February 2023, Pillar 2 requirement was revised to 5,50% (from 5,20%) resulting to a minimum CET 1 regulatory requirement of 10,094% (from 9,93%) and OCR regulatory requirement of 16,50% (from 15,70%) effective as from 8 February 2023. Furthermore, the final SREP 2021 decision introduced Pillar 2 guidance (P2G) which should be comprised entirely of CET 1 capital and held over and above the OCR.
  - On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the Countercyclical Buffer (CCyB) rate from 0,00% to 0,50% of the total risk exposure amount of each licensed credit institution incorporated in Cyprus. The new rate of 0,50% came into effect as from 30 November 2023. The CCyB for the Group as at 31 December 2023 has been calculated at 0,50%.
  - On 2 June 2023, CBC announced its decision to raise the CCyB rate to 1,00% (from 0,50%) of the total risk exposure amount in Cyprus of each licensed credit institution incorporated in Cyprus. The said increase will be effected as from 2 June 2024.
- Based on the Bank's approved Business Plan all capital ratios are maintained above regulatory capital requirements for the period of assessment (including Pillar 2 Guidance and MREL add on based on final target). The Board of Directors taking into consideration all available information, together with the Business Plan approved in November 2023 and relevant sensitivity scenarios performed, expects that the Group will be able to meet its capital requirements for the period of assessment without the need for additional capital.
- The Management Body and Management of the Group remain focused to implement the actions contemplated in the Business Plan of the Group which ensures the viability of the Bank and the Group and compliance with regulatory capital requirements throughout the period of assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.2 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 regulatory liquidity ratios. The Liquidity Coverage Ratio (LCR) stood at 355% on 31 December 2023 compared to 304% as at 31 December 2022, well above the minimum regulatory requirement of 100%.
- The Group holds significant liquidity buffers that can be monetised in a period of stress. The LCR surplus as at 31 December 2023 amounted to €241 million.
- Based on the Group's approved Business Plan, together with relevant sensitivity scenarios, it is expected that the Group will be compliant with regulatory liquidity requirements for the period of the going concern assessment.

2.1.3 Non-performing exposures (NPEs)

Effective management of the non performing loan portfolio and monetization of REOs remains a top priority for the Group. During 2023, the Group deployed all available tools to manage NPEs, namely restructurings, debt for asset swaps, foreclosures, legal measures and receiverships.

The target set for 2023, was the decrease of NPEs by 29% from €65,3 million at the end of 2022 to €46,7 million by the end of 2023. During 2023, as a result of the implementation of internal actions defined in the NPE Plan for 2023 as well as the low level of new NPE inflows, the 2023 NPE target was exceeded, with NPEs decreasing by 37% from €65,3 million to €41,2 million. Furthermore, the NPE ratio on a gross basis decreased from 26,2% at the end of 2022 to 19,6%, at the end of 2023, while on a net basis the NPE ratio decreased from 16,0% at the end of 2022 to 12,6% at the end of 2023.

In its NPE Plan for 2024-2026 Management has formulated a recovery action plan for organic reduction of NPEs. The plan defines the resolution strategy for each NPE exposure with the primary objective to expedite the resolution process. The implementation of these actions is carefully monitored, and recovery strategies and action plans are frequently reviewed and revised based on developments and results in order to promptly introduce corrective actions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION (continued)

2.2 Statement of compliance

The Consolidated 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.

2.3 Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for investments classified at fair value through other comprehensive income and properties for own use which are measured at fair value. Stock of property is measured at the lower of cost and net realisable value.

2.4 New and amended standards and Interpretations

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

IFRS 17 "Insurance Contracts"

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Group does not issue contracts in scope of IFRS 17, therefore its application does not have an impact on the Group financial performance, financial position or cash flows. The standard and its amendments had no significant impact on the Group's consolidated financial statements.

IAS 12 “Income Taxes”

These amendments changed the deferred tax treatment related to assets and liabilities in a single transaction such that they introduce an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. Neither of these amendments had a material impact on the Group’s consolidated financial statements.

IAS 1 “Presentation of Financial Statements”

Amendments to IAS 1 and “IFRS Practice Statement 2” that are intended to provide guidance on deciding which accounting policies to disclose in financial statements. Accordingly, an entity is now required to disclose its material accounting policies instead of its significant accounting policies. The amendments did not have a material impact on the Group’s consolidated financial statements.

IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors”

The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. These amendments did not have a material impact on the Group’s consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION (continued)

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

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

IAS 12 "Income taxes" - International Tax Reform - Pillar Two Model Rules (Amendments)

In December 2021, the Organization for Economic Co-Operation and Development ("OECD") issued Global Anti-Base Erosion and Profit Shifting ("BEPS") Rules under the Pillar 2 Framework. In May 2023, the IASB issued amendments to IAS 12 "IncomeTaxes" to introduce a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of Pillar 2 model rules and disclosure requirements. The application of the exception outlined above has to be applied immediately with the disclosure requirements to be effective for annual periods beginning on or after January 1, 2023. The amendments have yet to be endorsed by the EU. The Group expects these amendments to have no impact on the consolidated financial statements.

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

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board (''IASB'') but are not yet effective for annual periods beginning on 1 January 2023. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards, Amendments and Interpretations early.

IFRS 16 "Leases"

In September 2022, the IASB issued amendments to IFRS 16 "Leases" that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the IFRS 15 requirements to be accounted for as a sale. The amendments are effective for annual periods beginning on or after January 1, 2024, with early adoption permitted. The amendment is not expected to have a material impact on the Group's consolidated financial statements. These amendments have yet to be endorsed by the EU.

IAS 1 "Presentation of Financial Statements"

In January 2020 and July 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current". The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual periods beginning on or after 1 January 2024, with early adoption permitted. They will not have a material impact on the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION (continued)

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

IAS 1 "Presentation of Financial Statements" (continued)

In October 2022, the IASB issued a further amendment to IAS 1 that modifies the requirements described above on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. Accordingly, it clarifies that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In line with the previous amendments, the new amendments are effective for annual periods beginning on or after 1 January 2024, with early adoption permitted. The amendments will not have a material impact on the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments" Disclosure - Supplier Finance Arrangements (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose as at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The Group is currently evaluating the impact of adopting these amendments on the consolidated financial statements. The amendments have yet to be endorsed by the EU.

2.5 Fair value of financial assets and liabilities

The Group and the Bank apply the definition of fair value as set out in note 36. The Group and the Bank include disclosures in the financial statements, which are required under IFRS 13.

Level 1: financial istruments valued using quoted (unadjusted) prices in active markets for identical assets.

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.

2.6 Functional and presentation currency

The financial statements of the Group and the Bank are for the year ended 31 December 2023 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. BASIS OF PREPARATION (continued)

2.7 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.

Significant accounting estimates and judgments are set out in note 4 to the Financial Statements.

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 Bank, and of its subsidiary companies, which together are referred to as the "Group".

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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. 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.

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 property, fees from services rendered and other income.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Interest income and interest expense (continued)

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.

For purchased or originated credit impaired (POCI) financial assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

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 have 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 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Retirement benefits to staff

The Group operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% for the Bank and 6% for Global Capital Securities and Financial Services Ltd (the Bank's subsidiary) (2022: 9% and 6%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's and subsidiary'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. Corporation tax in Cyprus is calculated at the rate of 12,5%. 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'' for 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 2023

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 2023

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 measured 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii. Measurement categories (continued)

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.

iii. Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

A transfer only qualifies for derecognition if either:

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

Financial liabilities

Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. The Group considers a series of factors of both qualitative and quantitative nature when making such judgements on a modification in the contractual cash flows, including change in the currency, change in counterparty, introduction of substantially different terms such as addition of equity conversion features, changes in the legal framework and other.

iv. Modification of financial assets

The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or as a response to a borrower's financial difficulties (forborne modified loans) with a view to maximise recovery.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

iv. Modification of financial assets (continued)

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

Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. The Group considers a series of factors of both qualitative and quantitative nature when making such judgements on a modification in the contractual cash flows, including change in the currency, change in counterparty, introduction of substantially different terms such as addition of equity conversion features, changes in the legal framework and other.

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

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

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.

The ECL model applies to the following financial assets that are not measured at FVTPL:

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

Under IFRS 9 no impairment losses need to be recognised on equity investments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

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.

For purchased or originated credit impaired (POCI) financial assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 for which additional forbearance measures are extended.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Credit-impaired exposures (continued)

- Performing forborne exposures under probation, after declassification from NPE, that present more than 30 days past due within the probation period.

For retail clients if more than 20% of the clients' on balance sheet exposures are past due by more than 90 days, all other exposures to the same client (on and off-balance sheet) are considered as non-performing. Otherwise only the specific exposure which is past due by more than 90 days is classified as non-performing.

For non-retail clients, if an exposure meets the non-performing criteria set out above, then all exposures of that client are considered non-performing.

From 1 January 2021 two regulatory guidelines came into force that affect NPE classification and Days-Past-Due calculation. More specifically, these are the RTS on the Materiality Threshold of Credit Obligations Past Due (EBA/RTS/2016/06), and the Guideline on the Application of the Definition of Default under article 178 (EBA/RTS/2016/07).

The Days-Past-Due (DPD) counter begins counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than as of the first day of presenting any amount of arrears or excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality threshold. Payments towards the exposure that do not reduce the arrears/excesses below the materiality threshold, will not impact the counter.

Materiality thresholds for retail exposures are defined as the amount in arrears to exceed €100 and 1% of on-balance exposure, whereas for non-retail exposures the client’s total amount in arrears to exceed €500 and 1% of total on-balance-exposure of the client.

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

- At least one year has passed since the latest of the following events:
  - The restructuring date.
  - The date the exposure was classified as non-performing.
  - The end of the grace period included in the restructuring arrangements i.e. the beginning of capital instalments.
- According to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
- No Unlikely-to-Pay criteria exist for the debtor.
- The debtor has made post-forbearance payments of a non-significant amount of capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Credit-impaired exposures (continued)

Non-performing non-forborne exposures cease to be considered as NPEs when for 3 consecutive months none of the NPE criteria apply and it can be verified, that the economic situation of the debtor has improved to the extent that full repayment according to the original or when applicable the modified conditions is likely to be made.

When the exit criteria from the NPE status 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, balances with central banks and balances with other banks

Debt Securities, balances with central banks and balances with other 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 using an approximation of the original effective interest rate (EIR) of the same instrument. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Measurement of expected credit losses (continued)

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.

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.

PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime of the exposure. 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 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. CCF of 100% for unutilised limits is adopted by the Bank. 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 CCF for unutilised commitments has been set at 50% while for issued facilities the CCFs provided in European regulation 575/2013 are used.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

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, consumer 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% (2022: 50%) for the base scenario, 30% (2022: 30%) for the pessimistic scenario and 20% (2022: 20%) for the optimistic scenario.

Macroeconomic variables for each scenario are disclosed in Note 4.

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”.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Subsidiary companies (continued)

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.

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.

The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Bank, using consistent accounting policies.

3.16 Investments in Associates

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

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

In the Consolidated Financial Statements, the Group’s investments in associates are accounted for using the equity method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Investments in Associates (continued)

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

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

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

The Group applies equity accounting only up to the date an investment in associates meets the criteria for classification as held for sale. From then onwards, the investment in associates is measured at the lower of its carrying amount and fair value less costs to sell.

The financial statements of the associates are prepared as of the same reporting date as that of the Bank, using consistent accounting policies.

3.17 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.

3.18 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Premises and equipment (continued)

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.

3.19 Leases

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 asset for a period of time in exchange for consideration.

Where the Group is a lessee and the lease is deemed in scope, it recognises a lease liability measured at the present value of the future lease payments, discounted at the lessee's incremental borrowing rate (IBR) given that the interest rate implicit in the lease cannot be readily determined. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications. Lease liability is recognised in "Accruals and other liabilities". Interest is computed by unwinding the present value of the lease liability and charged to the consolidated income statement within "Interest expense".

Right of use (RoU) assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the RoU assets comprises the amount of the initial measurement of the lease liability, initial direct costs, adjusted for any related prepaid or accrued lease payments previously recognised. RoU assets is recognised in "Premises and equipment". Depreciation is computed on a straight-line basis up to the end of the lease term and recognised in the consolidated income statement within "Depreciation".

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Leases (continued)

The Group as a lessee (continued)

The lease term is calculated as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (if reasonably certain to be exercised), or any periods covered by an option to terminate the lease (if reasonably certain not to be exercised). The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownerhip of an asset are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease term and is included in "Other income" in the consolidated income statement. 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.

3.20 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.

3.21 Stock of property

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 property is recognised in the statement of financial position as ''Stock of property'', 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 property are 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 property, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 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.

3.23 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.

3.24 Share capital

The Bank's own shares are stated as equity.

3.25 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised at fair value being the premium received and presented on the Consolidated financial position within "Accruals and other liabilities". Subsequently, the Group's liability under each guarantee is measured at the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in "Fee and commission income" in accordance with the terms of the guarantee.

ECL resulting from financial guarantees is recorded in "Provisions for impairment" in the Consolidated income statement, and in "Accruals and other liabilities" on the Consolidated financial position.

Undrawn loan commitments are commitments under which, over the duration of the commitment the Group is required to provide a loan with pre-specified terms to the customer. ECL relating to loan commitments is recorded in "Provisions for impairment" in the consolidated income statement and in "Accruals and other liabilities" on the Consolidated financial position.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Impairment of non-financial assets (continued)

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 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.

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

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

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

4.1 Classification of financial assets

The Group exercises judgement upon determining the classification of its financial assets to customers which relate to business models and future cash flows.

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

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

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

- The sales are due to an increase in the credit risk of a financial asset. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a held-to-collect objective. This is because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows.
- The sales are infrequent (even if they are significant) or are insignificant individually and in aggregate (even if they are frequent).
- The sales take place close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

The Bank is assessing the significance of the amount of sales by comparing the portion sold with the overall size of the portfolio subject to the business model assessment.

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

More details on investment in debt securities and equity are presented in Note 20.

4.2 Calculation of expected credit losses

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Assessment of significant increase in credit risk (SICR)

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

Determination of probability of default (PD)

PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime of the exposure. 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 corporate segments the PDs are estimated at the debtor level while for retail portfolios are estimated at the facility level.

An adjustment was applied on the forecasted default rates by the adopted models in the form of a scalar factor and utilisation of a floor. The adjustment aims to capture uncertainties in the macroeconomics forecasts and emerging risks such as high inflation and interest rates. These risks may have a prominent impact on default rates as they generally lack the necessary historical data that would allow the bank's regression models to capture.

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

Scenarios and macroeconomic factors

The Group determines the ECL, which is a probability-weighted amount, by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on specific external studies on the Cyprus Economy. Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Bank's Executive Provisioning Committee and endorsed by the Bank's Risk Committee.

The Group updated its forward-looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments in the national and the EU level including the Russian-Ukraine and Israel-Hamas military conflicts, the high inflation and increased interest rates.

The Group uses three different economic scenarios. The calculation of expected credit losses for both individually and collectively assessed exposures is the weighted average of three scenarios: baseline at 50% weight (2022: 50% weight), pessimistic at 30% weight (2022: 30% weight) and optimistic 20% weight (2022: 20% weight). In order to account for the increased uncertainty of the economic outlook continued to utilise the increased weight for the pessimistic scenario of 30% compared to 25% and the decreased weight of the optimistic scenario of 20% compared to 25%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

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

Cyprus Economy – Macroeconomic Parameters 31 December 2023

Scenarios			2023	2024	2025	2026	2027
Optimistic	Real GDP change	%	0,85	3,49	3,74	1,48	1,45
	Unemployment	%	6,14	5,34	5,14	5,26	5,45
	Consumer price index	%	3,76	2,69	1,84	2,14	2,50
	House price index change	%	6,91	7,82	13,07	13,83	14,35
Baseline	Real GDP change	%	0,85	1,33	2,54	1,70	1,51
	Unemployment	%	6,14	5,94	5,98	6,02	6,03
	Consumer price index	%	3,76	2,41	1,62	2,09	2,40
	House price index change	%	6,91	5,85	8,72	12,11	14,36
Pessimistic	Real GDP change	%	0,85	-3,15	-0,20	3,65	3,37
	Unemployment	%	6,14	8,36	9,18	8,33	7,60
	Consumer price index	%	3,76	1,82	0,61	1,92	2,16
	House price index change	%	6,91	0,93	1,06	11,16	16,00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

Cyprus Economy – Macroeconomic Parameters 31 December 2022

Scenarios			2022	2023	2024	2025	2026
Optimistic	Real GDP change	%	5,45	3,39	3,42	2,52	1,40
	Unemployment	%	7,40	7,75	7,14	6,66	6,44
	Consumer price index	%	8,44	4,27	2,13	2,02	2,07
	House price index change	%	5,44	6,70	7,11	8,23	10,27
Baseline	Real GDP change	%	5,45	2,05	3,07	2,72	1,42
	Unemployment	%	7,40	7,75	7,29	6,91	6,65
	Consumer price index	%	8,44	4,21	2,24	2,02	2,08
	House price index change	%	5,44	5,36	4,87	7,89	10,41
Pessimistic	Real GDP change	%	5,45	-2,46	0,32	4,69	3,28
	Unemployment	%	7,40	10,47	11,54	10,18	8,92
	Consumer price index	%	8,44	1,69	0,05	1,60	1,83
	House price index change	%	5,44	2,23	-1,49	3,04	8,23

Assessment of loss given default

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

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

The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available property price indices by the CBC. In addition, a forward-looking indexation is applied in the collateral prices for estimating the future open market value at the time of liquidation and future net liquidation value is capped at the market value indexed as at the reference date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Assessment of loss given default (continued)

Under the pessimistic scenario, applied haircuts on real estate collaterals are increased by 5 p.p. and the timing of recovery of collaterals is increased by 0,5 year. Under the optimistic scenario applied haircuts are decreased by 5 p.p. and the timing of recovery of collaterals is decreased by 0,5 year. Under all scenarios, selling costs are assumed to be 5% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collaterals values.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers is set at 5 years for all types of properties under the baseline scenario which has increased compared to the previous year which was ranging between 3-5 years. The weighted average liquidation period for all real estate collaterals is 5,0 years (2022: 3,6 years). Different liquidation haircuts are applied depending on the type and location of each collateral with the liquidation haircut including selling expenses ranging from 10%-45% under the baseline scenario and weighted average liquidation haircut of 18% (2022: 17%).

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

Sensitivity analysis

For the purposes of providing an indication of the change in accumulated impairment losses on loans and advances as a result of changes in key loan impairment assumptions, the Bank has performed a sensitivity analysis. The impact on the provisions for impairment of loans and advances is presented below:

	Increase/(Decrease) of ECLs for loans and advances
	€'000
Baseline 100%, Optimistic 0%, Pessimistic 0%	(776)
Baseline 0%, Optimistic 100%, Pessimistic 0%	(2.747)
Baseline 0%, Optimistic 0%, Pessimistic 100%	3.124
Increase liquidation haircuts by 5 p.p.	729
Decrease liquidation haircuts by 5 p.p.	(568)
Increase PDs by 20%	519
Decrease PDs by 20%	(528)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.3 Fair value of investment in debt securities and equity

The best evidence of fair value is a quoted price in an actively traded market. The fair value of investments in debt securities and equity that are not traded in an active market is determined by using valuation techniques. The Bank and the Group uses valuation techniques that use observable market data, to the extend possible, where the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

More details on investment in debt securities and equity are presented in Notes 19, 20 and 36.

4.4 Income taxes

Significant estimates are required in determining the provision for income tax. For specific transactions and calculations, the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes may become due. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

4.5 Stock of property – estimation of net realisable value

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

More details on stock of property are presented in Note 25.

4.6 Exercise of significant influence or control

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

More details on exercise of significant influence or control are presented in Notes 21 and 22.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

The accounting policy for provisions for pending litigation, claims, regulatory and other matters is described in Note 3.28. Judgment is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigation, claims, regulatory and other matters usually require a high degree of judgement than other types of provisions. For a description of the nature of uncertainties and assumptions and the effect of the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 43.

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Loans and advances at amortised cost	13.734	9.226	13.915	9.500
Balances with banks at amortised cost	9.251	821	9.250	818
Debt securities	913	491	913	491
Client deposits	-	402	-	402
	23.898	10.940	24.078	11.211

Interest from loans and advances includes interest on net carrying amount of impaired loans and advances amounting to €2.218 thousand for the Group and €2.379 thousand for the Bank (31 December 2022: €1.887 thousand for the Group and €2.158 thousand for the Bank).

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 3.4 to the Financial Statements.

The Bank's interest from loans and advances includes interest from loans to subsidiaries amounting to €181 thousand (31 December 2022: €274 thousand).

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Bank borrowings	100	14	100	14
Client deposits	1.524	191	1.524	191
Balances with banks	3	368	-	364
Loan capital	460	452	460	452
Interest expense on lease liability	22	30	22	30
	2.109	1.055	2.106	1.051

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Credit related fees and commissions	419	592	419	592
Fund transfer commissions	912	992	912	992
Other banking and brokerage fees and commissions	2.050	2.005	1.647	1.401
	3.381	3.589	2.978	2.985

8. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	168	225	168	225
Banking related fees and commissions	166	164	166	164
Brokerage fees and commissions	43	53	-	-
Management and performance fees	4	158	-	-
	381	600	334	389

9. 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.

10. OTHER INCOME

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Dividend income	41	21	-	-
Profit/(loss) from disposal of subsidiary (note 21)	-	132	-	(29)
Profit/(loss) on disposal of stock of property (note 25)	206	66	126	(35)
Profit on revaluation of financial assets at FVTPL	26	11	-	-
Other income	124	170	35	89
	397	400	161	25

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. STAFF COSTS

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Salaries	6.792	6.422	6.571	6.181
Employer's contributions	1.117	1.043	1.084	1.008
Other staff benefits	2	6	2	6
Cost of retirement benefits	586	554	574	540
Compensation for early retirement	-	19	-	19
	8.497	8.044	8.231	7.754

The number of people employed by the Group as at 31 December 2023 was 134 (31 December 2022: 138) and by the Bank 130 (31 December 2022: 133).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2022: 9%) and employee contributions of 3%-10% (2022: 3%-10%) on the employees' gross salaries. The Bank's contributions are charged to the income statement.

The employees of Global Capital Securities and Financial Services Ltd are participating in the plan with employer contributions of 6% (2022: 6%) and employee contributions of 3%-10% (2022: 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.

12. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Consultancy and legal fees	803	567	735	536
Regulatory fees	415	283	400	266
IT related expenses	1.071	955	1.069	946
Marketing, subscriptions and donations	381	295	368	280
Utilities	324	328	313	315
Other operating expenses	1.230	1.080	1.126	1.000
	4.224	3.508	4.011	3.343

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

12. OTHER OPERATING EXPENSES (continued)

Special levy on deposits and other levies/contributions as presented in the consolidated income statement are set out below:

	THE GROUP AND THE BANK	
	2023	2022
	€'000	€'000
Contribution to Deposit Guarantee Fund	163	129
Single Resolution Fund contribution	46	86
Special levy on deposits of credit institutions in Cyprus	687	603
	896	818

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

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

13. PROFIT/(LOSS) BEFORE TAX

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

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees (note 42)	254	222	254	222
Expenses	18	11	18	11
Independent auditors' remuneration:				
Audit of annual accounts	168	128	140	105
Other non-audit services	119	49	119	49
Other assurance services	3	3	3	3
Profit/(loss) on disposal/write off of equipment	-	(5)	-	(5)
Depreciation on:				
Premises and equipment (note 23)	458	456	457	455
Computer software (note 24)	354	377	354	377

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. PROVISIONS FOR IMPAIRMENT

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Loans and advances	3.216	(399)	3.216	(399)
Recoveries of loans and advances to customers previously written off	(41)	-	(41)	-
Receivables and other assets	(9)	63	(9)	63
Financial guarantees and commitments (note 30)	366	(28)	366	(28)
Debt securities at FVOCI (note 20)	(8)	(3)	(8)	(3)
Debt securities at amortised cost (note 20)	(63)	21	(63)	21
Balances with Group companies	-	-	122	(76)
Cash and cash equivalents	(1)	2	(1)	2
Impairment losses on stock of property (note 25)	222	248	201	248
Changes in contractual cash flows due to modifications	-	260	-	260
	3.682	164	3.783	88

15. TAXATION

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Corporation tax	120	-	120	-
Deferred tax (note 29)	(14)	(19)	(14)	(19)
	106	(19)	106	(19)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

15. TAXATION (continued)

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

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Accounting profit/(loss) before tax	7.066	(55)	7.039	(23)
Corporation tax on the loss for the year at the rates applicable in Cyprus	883	(7)	880	(3)
Tax effect of:				
Expenses not deductible for tax purposes	200	231	200	224
Allowances and income not subject to tax	(156)	(229)	(153)	(226)
Effect of tax losses brought forward	(807)	-	(807)	-
Deferred tax asset on tax losses not recognised	-	5	-	5
Corporation tax	120	-	120	-
Deferred tax	(14)	(19)	(14)	(19)
Charge for the year	106	(19)	106	(19)

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

	THE GROUP		THE BANK	
	2023	2022	2023	2022
Basic and diluted earnings/(loss) per share				
Earnings/(loss) attributable to the owners of the parent company (€'000)	6.957	(39)	6.933	(4)
Weighted average number of shares in issue during the year ('000)	43.276	43.276	43.276	43.276
Basic and fully diluted earnings/(loss) per share (cent)	16,08	(0,09)	16,02	(0,01)

	THE GROUP AND THE BANK	
Weighted average number of ordinary shares in issue	2023	2022
Weighted average number of shares in issue during the year ('000)	43.276	43.276

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Cash	803	938	803	938
Balances with central banks	299.604	219.426	299.604	219.426
	300.407	220.364	300.407	220.364
Balances with other banks	2.357	2.252	2.147	2.117
Stage 1 – 12 month expected credit losses	(1)	(2)	(1)	(2)
	2.356	2.250	2.146	2.115

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.686 thousand (2022: €4.559 thousand) for the Group and the Bank.

For cash and cash equivalents as per statement of cash flows, refer to Note 37 to the Financial Statements.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in Note 38 to the Financial Statements.

18. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2023	2022
	€'000	€'000
Loans and advances	210.034	249.782
Changes to contractual cash flows due to modifications	(209)	(260)
Impairment losses individually assessed	(17.171)	(30.629)
Impairment losses collectively assessed	(2.170)	(2.664)
	190.484	216.229

Additional analysis and information regarding credit risk and analysis of the impairment losses is set out in Note 38 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

18. LOANS AND ADVANCES (continued)

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:

THE GROUP AND THE BANK	2023				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	124.573	53.195	62.169	9.845	249.782
Transfers to stage 1	651	(651)	-	-	-
Transfers to stage 2	(4.156)	4.156	-	-	-
Transfers to stage 3	(50)	(21)	71	-	-
New loans originated	11.690	1	341	-	12.032
Loans derecognised or repaid	(34.568)	(8.716)	(7.147)	(796)	(51.227)
Write offs	(1)	(8)	(19.779)	(4)	(19.792)
Interest accrued and other adjustments	9.797	3.749	5.142	551	19.239
31 December	107.936	51.705	40.797	9.596	210.034

THE GROUP AND THE BANK	2022				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	103.835	58.362	88.839	12.236	263.272
Transfers to stage 1	4.389	(3.077)	(1.312)	-	-
Transfers to stage 2	(1.303)	6.269	(4.966)	-	-
Transfers to stage 3	(49)	(41)	90	-	-
New loans originated or purchased	25.781	5	64	-	25.850
Loans derecognised or repaid	(13.403)	(5.513)	(7.724)	(2.639)	(29.279)
Write offs	-	(14)	(18.242)	-	(18.256)
Interest accrued and other adjustments	5.323	(2.796)	5.420	248	8.195
31 December	124.573	53.195	62.169	9.845	249.782

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

19. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	6.196	6.196	6.065	6.065
Balance 31 December	6.196	6.196	6.065	6.065
Permanent diminution				
Balance 1 January	(6.063)	(6.063)	(6.063)	(6.063)
Balance 31 December	(6.063)	(6.063)	(6.063)	(6.063)
Revaluation at fair value				
Balance 1 January	9	(2)	(2)	(2)
Increase in fair value	204	11	-	-
Balance 31 December	213	9	(2)	(2)
Balance 31 December at fair value	346	142	-	-

The Bank's subsidiary Global Capital Limited has an investment of 150.728 redeemable shares in Interorient Shipping Fund AIF V.C.I.C Plc. The valuation of this investment is performed on a semi-annual basis and the Group uses the net assets value (NAV) of the Fund. The fair value of the investment as at 31 December 2023 amounts to €346 thousand (31 December 2022: €142 thousand).

The investment in Interorient Shipping Fund AIF V.C.I.C Plc is classified as investments at fair value through profit or loss ("FVTPL") and is categorised under level 3. The fair values are disclosed in Note 36 to the Financial Statements.

Additional analysis and information regarding market risk is set out in Note 38 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

20. INVESTMENTS IN DEBT SECURITIES

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Securities at amortised cost				
Government bonds	37.610	40.791	37.610	40.791
Corporate bonds	4.705	4.541	4.705	4.541
Treasury bills	-	39.811	-	39.811
	42.315	85.143	42.315	85.143
Securities at FVOCI				
Government bonds	3.041	5.086	3.041	5.086
	3.041	5.086	3.041	5.086
	45.356	90.229	45.356	90.229

All debt securities are listed.

The movement of debt securities was as follows:

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Securities at amortised cost				
Balance at 1 January	85.246	106.332	85.246	106.332
Acquisitions	17.861	229.538	17.861	229.538
Maturities	(60.271)	(250.369)	(60.271)	(250.369)
Amortisation of discounts/premiums and interest	(481)	(255)	(481)	(255)
	42.355	85.246	42.355	85.246
Stage 1 - 12 month expected credit losses	(40)	(103)	(40)	(103)
Balance 31 December	42.315	85.143	42.315	85.143

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Securities at FVOCI				
Balance at 1 January	5.094	5.440	5.094	5.440
Maturities	(2.000)	-	(2.000)	-
Amortisation of discounts/premiums and interest	(108)	(98)	(108)	(98)
Mark to market valuation	56	(248)	56	(248)
	3.042	5.094	3.042	5.094
Stage 1 - 12 month expected credit losses	(1)	(8)	(1)	(8)
Balance 31 December	3.041	5.086	3.041	5.086

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

20. INVESTMENTS IN DEBT SECURITIES (continued)

Movement of Expected credit losses

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Balance 1 January	111	93	111	93
Stage 1 – 12 month expected credit losses FVOCI (note 14)	(8)	(3)	(8)	(3)
Stage 1 – 12 month expected credit losses amortised cost (note 14)	(63)	21	(63)	21
Balance 31 December	40	111	40	111

Additional analysis and information regarding market risk are set out in Note 38 to the Financial Statements.

21. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES

THE BANK

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

	Shareholding		Activities
	2023	2022	
In Cyprus:	%	%	
Global Capital Limited	84,64	84,64	Portfolio management, provision of financial advisory and brokerage services

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

	Shareholding		Activities
	2023	2022	
	%	%	
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

At 31 December 2023 the Bank had 100% shareholding in the Cyprus registered Special Purpose Entities (''SPEs'') listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts.

- Tsemberio Holding Limited
- Glumar Limited
- Welbon Limited
- Primesky Limited
- Starwiz Limited

Acquisitions, dissolutions and disposals of subsidiaries

There were no acquisitions of subsidiaries during the year ended 31 December 2023. During the year ended 31 December 2022, the Bank acquired one new subsidiary, Limondi Limited whose shares were subsequently transferred to the shareholders of the Bank at no consideration. Limondi Limited was inactive for the period it was a subsidiary of the Bank and did not have any assets or liabilities.

There were no disposals of subsidiaries during the year ended 31 December 2023. Pekito Holdings Limited and Jekelani Holding Limited were disposed off during the year ended 31 December 2022. Loss on disposal of subsidiary companies of €29 thousand was recorded in the income statement of the Bank and profit of €132 thousand was recorded in the consolidated income statement of the Group for the year ended 31 December 2022 (note 10).

Wailmer Holdings Limited and Metrore Properties Limited were dissolved on 01 September 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Global Capital Limited

The Bank's investment in Global Capital Limited and its subsidiaries is held at fair value through other comprehensive income (FVOCI) as shown below:

	2023 €'000	2022 €'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(960)	(1.186)
Fair value of investment 31 December	**1.321**	**1.095**
Amounts due to subsidiary company	(416)	(369)
Amounts due by subsidiary company		
Gross amount due by subsidiary company	513	484
Provision for impairment - collective	(1)	(2)
	512	482
Total exposure in Global Capital Limited	**1.417**	**1.208**
Income for the year	43	31
Expenses for the year	26	46

Movement in fair value of Global Capital Limited

	2023 €'000	2022 €'000
Fair value 1 January	1.095	1.117
Movement of fair value	226	(22)
Fair value of investment 31 December	**1.321**	**1.095**

The assumptions and methodology underlying the calculation of fair value of Global Capital Limited are disclosed in Note 36 to the Financial Statements.

Recognition of interest income and estimation of ECLs on loans to subsidiaries are in line with the Group's policies for interest income and impairment of financial assets as disclosed in Note 3 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Special Purpose Entities (SPEs)

	2023 €'000	2022 €'000
Cost of investments 1 January	9	10
Additions - new subsidiaries set up	-	2
Disposals/dissolutions/strike offs	(1)	(3)
Cost of investments 31 December	**8**	**9**
Amounts due to SPEs	-	(357)
Amounts due by SPEs		
Gross amount due by SPEs	3.444	5.983
Provision for impairment	(863)	(1.143)
	2.581	4.840
Total exposure in SPEs	**2.589**	**4.492**
Income for the year	161	266
Total exposure in subsidiary companies	**4.006**	**5.700**

Recognition of interest income and estimation of ECLs on loans to SPEs are in line with the Group's policies for interest income and impairment of financial assets as disclosed in Note 3 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. INVESTMENTS IN ASSOCIATES

THE GROUP

In 2021, the Group through its subsidiary company Global Capital Limited, acquired 83.999 thousand shares in CLR Investment Fund Public Ltd, an investment company listed in the Cyprus Stock Exchange (participation of 29,15%). The details of the investment are as follows:

Name	Country of incorporation	Effective shareholding		Activities
		2023	2022	
		%	%	
CLR Investment Fund Public Limited	Cyprus	24,674	24,674	Investments in securities listed in the Cyprus Stock Exchange, in strategic investments and in business participations in private companies

The Group's interest in CLR Investment Fund Public Ltd is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in CLR Investment Fund Public Ltd:

Summarised statement of financial position of CLR Investment Fund Public Ltd

	2023	2022
	€'000	€'000
Total assets	3.229	3.090
Total liabilities	(678)	(671)
Equity	**2.551**	**2.419**
Group's share in equity - carrying amount of investment	**744**	**670**
Group's share of profit/(loss) for the year	**2**	**(1)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

23. PREMISES AND EQUIPMENT

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2023				
Cost or valuation				
Balance 1 January	6.121	3.504	799	10.424
Additions	27	245	-	272
Disposals/write offs	-	(754)	-	(754)
Revaluation	257	-	-	257
Reversal of depreciation on revaluation	(371)	-	-	(371)
Remeasurement of RoU assets	-	-	(13)	(13)
Balance 31 December	6.034	2.995	786	9.815
Depreciation				
Balance 1 January	736	3.160	142	4.038
Charge for the year	137	161	160	458
On disposals/write offs	-	(754)	-	(754)
Reversal of depreciation on revaluation	(371)	-	-	(371)
Remeasurement of RoU assets	-	-	(302)	(302)
Balance 31 December	502	2.567	-	3.069
Net book value 31 December	5.532	428	786	6.746
Historic net book value of own premises stated at valuation 31 December	3.205	-	-	3.205

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

23. PREMISES AND EQUIPMENT (continued)

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2022				
Cost or valuation				
Balance 1 January	6.015	3.470	886	10.371
Additions	106	52	-	158
Disposals/write offs	-	(18)	-	(18)
Remeasurement of RoU assets	-	-	(87)	(87)
Balance 31 December	6.121	3.504	799	10.424
Depreciation				
Balance 1 January	602	3.010	201	3.813
Charge for the year	134	163	159	456
On disposals/write offs	-	(13)	-	(13)
Remeasurement of RoU assets	-	-	(218)	(218)
Balance 31 December	736	3.160	142	4.038
Net book value 31 December	5.385	344	657	6.386
Historic net book value of own premises stated at valuation 31 December	3.296	-	-	3.296

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

23. PREMISES AND EQUIPMENT (continued)

THE BANK	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2023				
Cost or valuation				
Balance 1 January	6.024	3.262	798	10.084
Additions	27	245	-	272
Disposals/write offs	-	(652)	-	(652)
Revaluation	257	-	-	257
Reversal of depreciation on revaluation	(371)	-	-	(371)
Remeasurement of RoU assets	-	-	(12)	(12)
Balance 31 December	5.937	2.855	786	9.578
Depreciation				
Balance 1 January	639	2.920	141	3.700
Charge for the year	137	160	160	457
On disposals/write offs	-	(652)	-	(652)
Reversal of depreciation on revaluation	(371)	-	-	(371)
Remeasurement of RoU assets	-	-	(301)	(301)
Balance 31 December	405	2.428	-	2.833
Net book value 31 December	5.532	427	786	6.745
Historic net book value of own premises stated at valuation 31 December	3.205	-	-	3.205

THE BANK	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2022				
Cost or valuation				
Balance 1 January	5.916	3.230	885	10.031
Additions	108	50	-	158
Disposals/write offs	-	(18)	-	(18)
Remeasurement of RoU assets	-	-	(87)	(87)
Balance 31 December	6.024	3.262	798	10.084
Depreciation				
Balance 1 January	503	2.772	201	3.476
Charge for the year	136	160	159	455
On disposals/write offs	-	(12)	-	(12)
Remeasurement of RoU assets	-	-	(219)	(219)
Balance 31 December	639	2.920	141	3.700
Net book value 31 December	5.385	342	657	6.384
Historic net book value of own premises stated at valuation 31 December	3.296	-	-	3.296

NOTES TO THE FINANCIAL STATEMENTS

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23. 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 3.19.

The Group policy is to revalue its own premises every 3 years, but more frequent valuations may be performed when 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 value of premises. The following table shows the valuation techniques used in measuring fair value 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
		The estimated fair value would increase/(decrease) if:
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 (€8,00-€17,00 per m²); • Remaining useful life of the property (30 years); • Capitalization rate (6,0% - 6,5%);	• The rent prices per square meter were higher/(lower); • Estimated useful life of the property was longer/(shorter); • The capitalization rate was lower/(higher);
		The estimated fair value would increase/(decrease) if:
Comparison Method: The valuation method considers selling prices of other properties with similar characteristics that have been sold recently.	• Selling price per square meter (€1.500K – €3.500K per m²).	• The selling prices per square meter were higher/(lower).

The Bank's freehold premises were valued by external professional valuers on 31 December 2023 at open market value on the basis of existing use. The surplus arising from the revaluation of freehold premises amounting to €257 thousand, less related deferred tax of €27 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 2023 would have amounted to €3.182 thousand (2022: €3.273 thousand). The net book value of leasehold premises as at 31 December 2023 amounts to €24 thousand (2022: €23 thousand).

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24. INTANGIBLE ASSETS

2023	THE GROUP Computer software €'000	THE BANK Computer software €'000
Cost		
Balance 1 January	6.068	5.894
Additions	277	277
Write-offs	(29)	-
Balance 31 December	6.316	6.171
Depreciation and impairment losses		
Balance 1 January	5.397	5.224
Charge for the year	354	354
On write-offs	(28)	-
Balance 31 December	5.723	5.578
Net book value 31 December	593	593

2022	THE GROUP Computer software €'000	THE BANK Computer software €'000
Cost		
Balance 1 January	5.826	5.653
Additions	242	241
Balance 31 December	6.068	5.894
Depreciation and impairment losses		
Balance 1 January	5.020	4.847
Charge for the year	377	377
Balance 31 December	5.397	5.224
Net book value 31 December	671	670

NOTES TO THE FINANCIAL STATEMENTS

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25. STOCK OF PROPERTY

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Stock of property	8.579	8.633	6.028	3.971
	8.579	8.633	6.028	3.971

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 the intention to be disposed of.

The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of property is measured at the lower of cost and net realizable value. Impairment is recognised if the net realisable value is below the cost of stock of property. During 2023 an impairment loss of €222 thousand (2022: €248 thousand) was recognised in the consolidated income statement and €201 thousand (2022: €248 thousand) in the income statement of the Bank (note 14).

The stock of property held on 31 December 2023 consisted mainly of commercial and industrial buildings of €3,8 million, commercial land plots of €2,1 million, agricultural land plots of €0,9 million and residential land and buildings of €1,8 million.

The carrying amount of the stock of property is analysed in the table below:

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Net book value 1 January	8.633	9.702	3.971	1.331
Additions	3.263	3.083	3.263	3.083
Disposals of stock of property	(3.095)	(944)	(1.005)	(195)
Disposal of subsidiaries (note 21)	-	(2.960)	-	-
Movement in impairment loss provision (note 14)	(222)	(248)	(201)	(248)
Balance 31 December	8.579	8.633	6.028	3.971

The table below shows the result on the disposal of stock of property in the year:

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Net proceeds	3.301	835	1.131	160
Carrying value of stock of property disposed of	(3.095)	(769)	(1.005)	(195)
Profit/(loss) on disposal of stock of property (note 10)	206	66	126	(35)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Sundry debtors and other assets	1.922	1.941	1.174	972
	1.922	1.941	1.174	972

27. BANK BORROWINGS

THE GROUP AND THE BANK

	2023	2022
	€'000	€'000
Borrowings	1.921	2.328
	1.921	2.328

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 2023 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% for tranche 1 and 0,793% for tranche 2. Both tranches are repayable within ten years, from the date of disbursement, in twenty equal semi-annual instalments as follows:

		Balance		
	Disbursed	2023	2022	Maturity
	€'000	€'000	€'000	
Tranche 1	2.000	806	1.001	8 November 2027
Tranche 2	2.210	1.115	1.327	24 October 2028
	4.210	1.921	2.328	

28. CLIENT DEPOSITS

THE GROUP AND THE BANK

	2023	2022
	€'000	€'000
Demand deposits	275.361	321.600
Fixed-term or notice deposits	214.062	165.241
	489.423	486.841

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For the year ended 31 December 2023

29. DEFERRED TAXATION

THE GROUP AND THE BANK

Movement in deferred tax liability:	2023 €'000	2022 €'000
Balance 1 January	301	346
Deferred tax on revaluation of premises	27	(26)
Deferred tax on temporary differences credited to the income statement	(14)	(19)
Balance 31 December	314	301

Deferred tax liability comprises of:	2023 €'000	2022 €'000
Surplus on revaluation of premises (net of accumulated depreciation)	353	326
Accumulated temporary timing differences between depreciation and capital allowances	(39)	(25)
	314	301

Deferred tax assets have not been recognised in respect of tax losses. Tax losses for which no deferred tax asset was recognised in 2022 expire as follows:

	2023 €'000	Expiry date	2022 €'000	Expiry date
Balance 31 December	-	N/A	6.458	2023-2027

All tax losses were utilised in 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	2.681	2.008	2.302	1.291
Items in the course of settlement	4.793	5.321	4.793	5.321
Deferred income	247	285	247	285
Lease liability (note 31)	797	657	797	657
Provision for financial guarantees and commitments	450	84	450	84
	8.968	8.355	8.589	7.638

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 is recognised as revenue over the period of time to which it relates.

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	2023	2022
	€'000	€'000
Balance 1 January	84	112
Net increase/(decrease) in provision (Note 14)	366	(28)
Balance 31 December	450	84

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. LEASE LIABILITIES

THE GROUP AND THE BANK

The Group leases commercial properties used as offices 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.

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

Movement in lease liability

	2023 €'000	2022 €'000
Balance 1 January	657	680
Remeasurement of lease liability	290	131
Cash-outflow payments	(172)	(184)
Interest expense	22	30
	797	657

The right-of-use asset balances and depreciation charges are disclosed in Note 23.

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

2023	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	173	164	460	-	797

2022	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	174	175	308	-	657

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

32. LOAN CAPITAL

THE GROUP AND THE BANK

		2023		2022	
		€'000	€'000	€'000	€'000
	Contractual interest rate	Nominal value	Carrying value	Nominal value	Carrying value
Perpetual Unsecured Subordinated Note	13,75%	5.000	5.000	5.000	5.000
Subordinated Tier 2 Bonds	7,125%	6.250	6.261	6.250	6.261
		11.250	11.261	11.250	11.261

Perpetual Unsecured Subordinated Note

On 3rd August 2017, the Bank issued at par a €5.000.000 Perpetual Unsecured Subordinated Note to Bank of Cyprus Public Company Limited ("BoC"). On 28th December 2022 the Note was sold by BoC to Limondi Limited a Cyprus registered private company. 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 ended 31 December 2023 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 2023

32. LOAN CAPITAL (continued)

Subordinated Tier 2 Bonds

In December 2021, the Bank issued €6,25 million unsecured Subordinated Bonds of 10 year duration. The Bonds carry a fixed interest rate of 7,125% payable every six months, on 23 June and 23 December each year. The Bonds mature on 23 December 2031. The Bank has the option to redeem the bonds in whole or in part before their contractual maturity, provided that 5 years have lapsed from the date of issuance, and subject to regulatory consents. The Bank also has the right but not the obligation to exercise an option for the early call, redemption, repayment, or purchase of the Bonds during the first five years following their date of their issuance, under specific circumstances as these are stated in Article 78(4) of the CRR and subject to regulatory consents. The Subordinated Tier 2 Bond qualifies for classification as Tier 2 Capital.

The Bonds were listed in the Emerging Companies Bond Market ("ECBM") of the Cyprus Stock Exchange ("CSE") on 29 September 2022.

33. SHARE CAPITAL

THE BANK

	2023		2022	
	No. of shares	Share Capital €'000	No. of shares	Share Capital €'000
Authorised:				
Ordinary shares of €0,20 each	704.849.584	140.970	704.849.584	140.970
Issued and fully paid:				
Ordinary shares of NV €0,20 each	43.275.979	8.655	43.275.979	8.655

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. CONTINGENT LIABILITIES AND COMMITMENTS

Contigent liabilities consist of financial guarantees issued to clients and commitments consist of undrawn loan committments and unutilised limits for funded and non-funded facilities.

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

THE GROUP AND THE BANK

Contingent liabilities	2023	2022
	€'000	€'000
Guarantees issued	22.553	19.205

Commitments	2023	2022
	€'000	€'000
Documentary credits	542	405
Undrawn commitments for loans and advances	23.292	19.009
Undrawn commitments for non-funded facilities	11.624	12.318
	35.458	31.732
Contingent liabilities and commitments	**58.011**	**50.937**

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 represent agreements to provide loans, overdrafts or other facilities to clients which remain unutilised.

Capital Commitments

Commitments for contracted capital expenditure as at 31 December 2023 amounted to €73 thousand (2022: €189 thousand).

Contingent liabilities for material litigation

Details of material litigation of the Group are disclosed in Note 43 to the Financial Statements.

35. FIDUCIARY TRANSACTIONS

The Group and the Bank offer fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group and the Bank are not liable to their customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group and the balance sheet of the Bank unless they are placed with the Group/Bank. Total assets under management and custody at 31 December 2023 amounted to €46.327 thousand (2022: €40.729 thousand) for the Group and €14.344 thousand (2022: €1.734) for the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. 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.

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 istruments valued using quoted (unadjusted) prices in active markets for identical assets.

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 2023 and 2022, the Group did not make any transfers into and out of the fair value hierarchy levels.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. FAIR VALUE (continued)

Financial instruments measured at fair value

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

THE GROUP
2023

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVTPL					
Equities	19	-	-	346	346
Investments at FVOCI					
Debt securities	20	-	3.041	-	3.041
		-	3.041	346	3.387
Financial liabilities		-	-	-	-

THE GROUP
2022

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVTPL					
Equities	19	-	-	142	142
Investments at FVOCI					
Debt securities	20	-	5.086	-	5.086
		-	5.086	142	5.228
Financial liabilities		-	-	-	-

There were no transfers between levels during 2023 and 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. FAIR VALUE (continued)

Financial instruments measured at fair value (continued)

THE BANK
2023

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	20	-	3.041	-	3.041
Investments in subsidiary companies	21	-	-	1.321	1.321
		-	3.041	1.321	4.362
Financial liabilities		-	-	-	-

THE BANK
2022

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	20	-	5.086	-	5.086
Investments in subsidiary companies	21	-	-	1.095	1.095
		-	5.086	1.095	6.181
Financial liabilities		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. FAIR VALUE (continued)

Non-financial assets measured at fair value

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

THE GROUP

2023	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	23	-	-	5.532	5.532

2022	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	23	-	-	5.385	5.385

There were no transfers between levels during 2023 and 2022.

THE BANK

2023	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	23	-	-	5.532	5.532

2022	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	23	-	-	5.385	5.385

There were no transfers between levels during 2023 and 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. 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

2023	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	300.407	-	300.407
Balances with other banks	-	2.356	-	2.356
Loans and advances	-	-	190.484	190.484
Debt securities at amortised cost	-	41.500	-	41.500
Investments in associates	-	-	336	336
	-	344.263	190.820	535.083
Financial liabilities				
Bank borrowings	-	-	1.921	1.921
Client deposits	-	-	489.423	489.423
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	450	450
	-	-	503.055	503.055

There were no transfers between levels during 2023 and 2022.

2022	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	220.364	-	220.364
Balances with other banks	-	2.250	-	2.250
Loans and advances	-	-	216.229	216.229
Debt securities at amortised cost	35.567	47.287	-	82.854
Investments in associates	-	-	294	294
	35.567	269.901	216.523	521.991
Financial liabilities				
Bank borrowings	-	-	2.328	2.328
Client deposits	-	-	486.841	486.841
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	84	84
	-	-	500.514	500.514

There were no transfers between levels during 2023 and 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

THE BANK

2023	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	300.407	-	300.407
Balances with other banks	-	2.146	-	2.146
Loans and advances	-	-	190.484	190.484
Debt securities at amortised cost	-	41.500	-	41.500
	-	344.053	190.484	534.537
Financial liabilities				
Borrowings	-	-	1.921	1.921
Client deposits	-	-	489.423	489.423
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	450	450
	-	-	503.055	503.055

2022	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	220.364	-	220.364
Balances with other banks	-	2.115	-	2.115
Loans and advances	-	-	216.229	216.229
Debt securities at amortised cost	35.567	47.287	-	82.854
	35.567	269.766	216.229	521.562
Financial liabilities				
Bank borrowings	-	-	2.328	2.328
Client deposits	-	-	486.841	486.841
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	84	84
	-	-	500.514	500.514

There were no transfers between levels during 2023 and 2022.

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:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

36. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

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.

A variance of 10% on the net asset value of the investment in subsidiary would have a positive or negative impact of €132 thousand (2022: €109) on the Group's equity.

Investments in associates
Investment in CLR Investment Fund Public Limited is accounted for using the equity method in the consolidated financial statements. For the purpose of calculating the fair value this investment is categorised under level 3. The shares of CLR Investment Fund Public Limited are listed on the Cyprus Stock Exchange and for the calculation of the fair value, the Group uses the price of the share as at 31 December 2023.

Balances with other banks
Since balances with banks are 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 23).

37. CASH AND CASH EQUIVALENTS

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Cash	803	938	803	938
Balances with central banks	294.918	214.867	294.918	214.867
Balances with other banks	2.356	2.250	2.146	2.115
	298.077	218.055	297.867	217.920

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

NOTES TO THE FINANCIAL STATEMENTS

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38. 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 to continuously and systematically monitor the risks mentioned above, aiming to prevent an undue concentration of these risks. The nature of these risks and the approach to managing them are provided below. The risks outlined below should not be considered an exhaustive or all-encompassing list of potential risks, uncertainties, or mitigating factors. Other factors that have not yet been identified or are not currently significant may also impact the Group negatively.

38.1 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 within the conduct of the Bank's operations. Credit risk from connected clients' accounts is monitored on an aggregated basis. The Bank's corporate and SME clients are classified into risk grades based on quantitative ratings derived from external models in combination with qualitative internal assessment, in line with the Bank's grading methodology. Grading parameters include the client's track record with the Bank and other financial institutions, management quality and succession, market position, repayment capability and financial score based on latest financial information. These are weighted and mapped with the corresponding LGD to arrive at the final client grade.

The Group's policy relating to recognition of income on loans and advances and provisions for impairment of doubtful accounts is stated in Notes 3 and 4.2 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 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 associated with investments in liquid funds, mainly debt securities and placements with banks. To manage these exposures, the Group has established counterparty and country limits.

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38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis

THE GROUP		2023				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		2	-	-	-	2
A1 - A3		1	-	-	-	1
Baa1 - Baa3		300.855	-	-	-	300.855
Ba1 - Ba3		517	-	-	-	517
B1 – B3		-	-	-	-	-
Unrated		586	-	-	-	586
	17	301.961	-	-	-	301.961
Loss allowance		(1)	-	-	-	(1)
Carrying amount	17	301.960	-	-	-	301.960
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		107.116	48.853	-	9.172	165.141
Grade 4-5: Special mention		820	2.852	-	-	3.672
Non-performing		-	-	40.797	424	41.221
	18	107.936	51.705	40.797	9.596	210.034
Loss allowance and changes to contractual cash flows due to modifications	18	(838)	(1.538)	(16.923)	(251)	(19.550)
Carrying amount	18	107.098	50.167	23.874	9.345	190.484
Debt securities						
Baa1 - Baa3		30.930	-	-	-	30.930
Ba1 - Ba3		14.467	-	-	-	14.467
	20	45.397	-	-	-	45.397
Loss allowance	20	(41)	-	-	-	(41)
Carrying amount	20	45.356	-	-	-	45.356
Contingent liabilities and commitments						
Gross amount	34	57.576	415	20	-	58.011
Loss allowance	30	(448)	(1)	(1)	-	(450)
Carrying amount		57.128	414	19	-	57.561

NOTES TO THE FINANCIAL STATEMENTS

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38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis (continued)

THE GROUP		2022				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		36	-	-	-	36
A1 - A3		15	-	-	-	15
Ba1 - Ba3		219.773	-	-	-	219.773
B1 – B3		1.176	-	-	-	1.176
Unrated		678	-	-	-	678
	17	221.678	-	-	-	221.678
Loss allowance		(2)	-	-	-	(2)
Carrying amount	17	221.676	-	-	-	221.676
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		123.938	48.649	-	6.692	179.279
Grade 4-5: Special mention		635	4.546	-	-	5.181
Non-performing		-	-	62.169	3.153	65.322
	18	124.573	53.195	62.169	9.845	249.782
Loss allowance and changes to contractual cash flows due to modifications	18	(930)	(1.990)	(30.513)	(120)	(33.553)
Carrying amount	18	123.643	51.205	31.656	9.725	216.229
Debt securities						
Baa1 - Baa3		3.213	-	-	-	3.213
Ba1 - Ba3		72.654	-	-	-	72.654
B1 - B3		14.473	-	-	-	14.473
	20	90.340	-	-	-	90.340
Loss allowance	20	(111)	-	-	-	(111)
Carrying amount	20	90.229	-	-	-	90.229
Contingent liabilities and commitments						
Gross amount	34	46.523	4.113	56	245	50.937
Loss allowance	30	(84)	-	-	-	(84)
Carrying amount		46.439	4.113	56	245	50.853

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis (continued)

THE BANK	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
		2023				
Balances with central banks and other banks						
Aaa - Aa3		2	-	-	-	2
A1 - A3		1	-	-	-	1
Baa1 - Baa3		300.658	-	-	-	300.658
Ba1 - Ba3		504	-	-	-	504
B1 – B3		-	-	-	-	-
Unrated		586	-	-	-	586
	17	301.751	-	-	-	301.751
Loss allowance		(1)	-	-	-	(1)
Carrying amount	17	301.750	-	-	-	301.750
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		107.116	48.853	-	9.172	165.141
Grade 4-5: Special mention		820	2.852	-	-	3.672
Non-performing		-	-	40.797	424	41.221
	18	107.936	51.705	40.797	9.596	210.034
Loss allowance and changes to contractual cash flows due to modifications	18	(838)	(1.538)	(16.923)	(251)	(19.550)
Carrying amount	18	107.098	50.167	23.874	9.345	190.484
Debt securities						
Baa1 - Baa3		30.930	-	-	-	30.930
Ba1 - Ba3		14.467	-	-	-	14.467
	20	45.397	-	-	-	45.397
Loss allowance	20	(41)	-	-	-	(41)
Carrying amount	20	45.356	-	-	-	45.356
Contingent liabilities and commitments						
Gross amount	34	57.576	415	20	-	58.011
Loss allowance	30	(448)	(1)	(1)	-	(450)
Carrying amount		57.128	414	19	-	57.561

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis (continued)

THE BANK		2022				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		36	-	-	-	36
A1 - A3		15	-	-	-	15
Ba1 - Ba3		219.764	-	-	-	219.764
B1 – B3		1.050	-	-	-	1.050
Unrated		678	-	-	-	678
	17	221.543	-	-	-	221.543
Loss allowance		(2)	-	-	-	(2)
Carrying amount	17	221.541	-	-	-	221.541
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		123.938	48.649	-	6.692	179.279
Grade 4-5: Special mention		635	4.546	-	-	5.181
Non-performing		-	-	62.169	3.153	65.322
	18	124.573	53.195	62.169	9.845	249.782
Loss allowance and changes to contractual cash flows due to modifications	18	(930)	(1.990)	(30.513)	(120)	(33.553)
Carrying amount	18	123.643	51.205	31.656	9.725	216.229
Debt securities						
Baa1 - Baa3		3.213	-	-	-	3.213
Ba1 - Ba3		72.654	-	-	-	72.654
B1 - B3		14.473	-	-	-	14.473
	20	90.340	-	-	-	90.340
Loss allowance	20	(111)	-	-	-	(111)
Carrying amount	20	90.229	-	-	-	90.229
Contingent liabilities and commitments						
Gross amount	34	46.523	4.113	56	245	50.937
Loss allowance	30	(84)	-	-	-	(84)
Carrying amount		46.439	4.113	56	245	50.853

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK	2023				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	35.971	7.064	10.232	269	53.536
Construction & real estate	30.445	23.041	1.429	9.173	64.088
Industry	4.542	694	7.867	-	13.103
Hotels & catering	16.663	18.593	3.925	-	39.181
Agriculture	925	-	4.598	-	5.523
Transport and storage	1.936	-	1	-	1.937
Other sectors	17.454	2.313	12.745	154	32.666
	107.936	51.705	40.797	9.596	210.034
Loss allowance and changes to contractual cash flows due to modifications	(838)	(1.538)	(16.923)	(251)	(19.550)
Carrying amount	107.098	50.167	23.874	9.345	190.484

	2022				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	50.199	7.740	14.722	191	72.852
Construction & real estate	37.789	22.158	5.544	9.369	74.860
Industry	4.686	1.703	10.614	-	17.003
Hotels & catering	15.882	21.528	5.246	-	42.656
Agriculture	895	-	7.469	-	8.364
Transport and storage	1.943	-	667	-	2.610
Other sectors	13.179	66	17.907	285	31.437
	124.573	53.195	62.169	9.845	249.782
Loss allowance and changes to contractual cash flows due to modifications	(930)	(1.990)	(30.513)	(120)	(33.553)
Carrying amount	123.643	51.205	31.656	9.725	216.229

Concentration by location

THE GROUP AND THE BANK

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 amounts to €1.386 thousand (2022: €1.901 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK	2023 €'000	2022 €'000
Carrying amount		
Grade 1-3: Low-medium risk	162.933	176.496
Grade 4-5: Special mention	3.501	5.040
	166.434	181.536
Of which loans and advances with renegotiated terms	48.835	46.465
*Value of collateral security**		
Grade 1-3: Low-medium risk	138.671	134.736
Grade 4-5: Special mention	3.328	3.741
	141.999	138.477
Of which loans and advances with renegotiated terms	42.172	37.902

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK

2023		Performing loans and advances			
	Total loans and advances €'000	Non-restructured €'000	Restructured €'000	Total €'000	Non-performing loans and advances €'000
Loans and advances to corporate legal entities					
Services	33.129	21.255	5.326	26.581	6.548
Construction & real estate	53.893	26.801	27.085	53.886	7
Industry	7.455	1.041	-	1.041	6.414
Hotels & catering	34.806	21.798	11.282	33.080	1.726
Agriculture	3.289	-	-	-	3.289
	132.572	70.895	43.693	114.588	17.984
Loans and advances to retail legal entities					
Services	14.561	10.536	860	11.396	3.165
Construction & real estate	8.888	6.566	1.422	7.988	900
Industry	5.648	3.501	694	4.195	1.453
Hotels & catering	3.337	1.139	-	1.139	2.198
Agriculture	1.959	925	-	925	1.034
Transport and storage	1.937	1.936	-	1.936	1
	36.330	24.603	2.976	27.579	8.751
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	19.779	12.753	-	12.753	7.026
Consumer Loans	13.480	7.041	2.147	9.188	4.292
Current accounts	2.903	1.446	-	1.446	1.457
Credit facilities to sole traders	4.970	1.721	1.538	3.259	1.711
	41.132	22.961	3.685	26.646	14.486
Total loans and advances	210.034	118.459	50.354	168.813	41.221
Provisions and changes to contractual cash flows due to modifications	(19.550)	(860)	(1.519)	(2.379)	(17.171)
Carrying amount	190.484	117.599	48.835	166.434	24.050

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK

2022		Performing loans and advances			Non-performing loans and advances
	Total loans and advances €'000	Non-restructured €'000	Restructured €'000	Total €'000	€'000
Loans and advances to corporate legal entities					
Services	50.397	34.811	5.664	40.475	9.922
Construction & real estate	64.074	34.832	23.160	57.992	6.082
Industry	11.829	1.991	1.642	3.633	8.196
Hotels & catering	39.487	22.297	13.857	36.154	3.333
Agriculture	3.210	-	-	-	3.210
Other sectors	1.064	-	-	-	1.064
	170.061	93.931	44.323	138.254	31.807
Loans and advances to retail legal entities					
Services	14.934	10.418	993	11.411	3.523
Construction & real estate	9.513	6.271	1.463	7.734	1.779
Industry	5.174	2.710	46	2.756	2.418
Hotels & catering	2.080	167	-	167	1.913
Agriculture	4.883	895	-	895	3.988
Transport and storage	2.610	1.943	-	1.943	667
	39.194	22.404	2.502	24.906	14.288
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	17.005	10.219	-	10.219	6.786
Consumer Loans	12.569	5.718	23	5.741	6.828
Current accounts	4.544	1.272	-	1.272	3.272
Credit facilities to sole traders	6.409	2.474	1.594	4.068	2.341
	40.527	19.683	1.617	21.300	19.227
Total loans and advances	249.782	136.018	48.442	184.460	65.322
Provisions and changes to contractual cash flows due to modifications	(33.553)	(947)	(1.977)	(2.924)	(30.629)
Carrying amount	216.229	135.071	46.465	181.536	34.693

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 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		
2023	Total	Non-performing	Provision and modification amount	Total	Non-performing	Provision and modification amount	Total	Non-performing	Provision and modification amount	Total	Non-performing	Provision and modification amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within one year	11.070	189	197	8.060	189	187	2.516	-	1	494	-	9
Between one and two years	23.107	6	27	17.914	3	17	3.501	-	-	1.692	3	10
Between two and three years	16.343	521	826	13.052	481	784	2.407	-	1	884	40	41
Between three and five years	33.563	2.654	1.158	25.538	2.615	1.146	3.216	-	-	4.809	39	12
Between five and seven years	24.260	1.870	1.667	21.109	388	840	602	-	-	2.549	1.482	827
Between seven and ten years	11.824	1.975	791	10.642	1.783	675	237	-	-	945	192	116
Over ten years	89.867	34.006	14.884	72.587	21.276	9.791	7.300	7.026	1.601	9.980	5.704	3.492
	210.034	41.221	19.550	168.902	26.735	13.440	19.779	7.026	1.603	21.353	7.460	4.507

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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

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		
2022	Total	Non-performing	Provision and modification amount	Total	Non-performing	Provision and modification amount	Total	Non-performing	Provision and modification amount	Total	Non-performing	Provision and modification amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within one year	24.841	2	11	19.894	2	8	3.076	-	2	1.871	-	1
Between one and two years	20.535	377	602	17.160	377	600	2.492	-	1	883	-	1
Between two and three years	18.563	1.419	888	14.948	1.380	886	1.013	-	-	2.602	39	2
Between three and five years	31.153	1	306	26.465	-	299	2.871	-	5	1.817	1	2
Between five and seven years	24.488	3.382	1.697	21.430	1.976	1.306	306	-	-	2.752	1.406	391
Between seven and ten years	7.912	4.287	2.232	5.121	2.055	1.582	117	-	-	2.674	2.232	650
Over ten years	122.290	55.854	27.817	104.237	40.305	20.672	7.130	6.786	447	10.923	8.763	6.698
	249.782	65.322	33.553	209.255	46.095	25.353	17.005	6.786	455	23.522	12.441	7.745

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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

THE GROUP AND THE BANK

2023	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	3.862	1.507	2.355	2.303
Between three and six months	8.804	2.054	6.750	6.738
Between six months and one year	1.641	943	698	697
Over one year	26.914	12.667	14.247	10.572
Total	41.221	17.171	24.050	20.310
Of which loans and advances with renegotiated terms	19.165	6.018	13.147	12.000

2022	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	16.234	2.381	13.853	13.389
Between three and six months	647	121	526	503
Between six months and one year	1.511	150	1.361	1.334
Over one year	46.930	27.977	18.953	13.224
Total	65.322	30.629	34.693	28.450
Of which loans and advances with renegotiated terms	31.464	10.011	21.453	19.414

**Collateral securities are stated at market 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 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. Onboarding and subsequent management of acquired properties due to DFAS or repossession is carried out through a rigorous and transparent process. A dedicated Acquisitions and Disposals Committee (ADC) with senior executive participation has been formed which meets regularly for this purpose whilst all major decisions are brought before the Board of Directors.

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

THE GROUP AND THE BANK

2023	Maximum exposure to credit risk	Value of collateral*				Net exposure to credit risk
		Cash	Property	Other	Total collateral	
	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers						
Performing						
Stage 1	107.098	1.396	85.004	3.813	90.213	16.885
Stage 2	50.167	182	42.509	-	42.691	7.476
POCI	9.169	-	9.095	-	9.095	74
	166.434	1.578	136.608	3.813	141.999	24.435
Non-performing						
Stage 3	23.874	10	18.626	1.498	20.134	3.740
POCI	176	-	176	-	176	-
	24.050	10	18.802	1.498	20.310	3.740
	190.484	1.588	155.410	5.311	162.309	28.175
2022						
Loans and advances to customers						
Performing						
Stage 1	123.643	2.186	87.706	7	89.899	33.744
Stage 2	51.205	183	41.803	-	41.986	9.219
POCI	6.688	37	6.555	-	6.592	96
	181.536	2.406	136.064	7	138.477	43.059
Non-performing						
Stage 3	31.656	10	24.221	1.182	25.413	6.243
POCI	3.037	-	3.037	-	3.037	-
	34.693	10	27.258	1.182	28.450	6.243
	216.229	2.416	163.322	1.189	166.927	49.302

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 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

	2023				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	930	1.990	30.513	120	33.553
Transfers to stage 1	11	(11)	-	-	-
Transfers to stage 2	(2)	2	-	-	-
Transfers to stage 3	-	(2)	2	-	-
Exchange differences	-	-	-	(9)	(9)
New loans orginated	11	-	217	-	228
Loans derecognised or repaid	(87)	(1)	(537)	-	(625)
Changes to contractual cash flows due to modifications not resulting in derecognition	(51)	-	-	-	(51)
Write offs	(1)	(8)	(19.779)	(4)	(19.792)
Interest provided not recognised in the income statement	-	-	2.587	46	2.633
Changes due to models and inputs	27	(432)	3.920	98	3.613
31 December	838	1.538	16.923	251	19.550

During 2023 exposures of €19.792 thousand (2022: €18.256 thousand) were written off, out of which €18.452 thousand (2022: €15.700) relate to accounting write offs.

	2022				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	702	3.367	44.699	34	48.802
Transfers to stage 1	348	(291)	(57)	-	-
Transfers to stage 2	(18)	78	(60)	-	-
Transfers to stage 3	-	(10)	10	-	-
Exchange differences	-	-	3	12	15
New loans originated or purchased	12	-	-	71	83
Loans derecognised or repaid	(3)	(74)	(948)	-	(1.025)
Changes to contractual cash flows due to modifications not resulting in derecognition	260	-	-	-	260
Write offs	-	(14)	(18.242)	-	(18.256)
Interest provided not recognised in the income statement	-	-	3.086	3	3.089
Changes due to models and inputs	(371)	(1.066)	2.022	-	585
31 December	930	1.990	30.513	120	33.553

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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 (net carrying amount):

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Aaa – Aa3	2	36	2	36
A1 – A3	1	15	1	15
Baa1 – Baa3	300.854	-	300.657	-
Ba1 – Ba3	517	219.773	504	219.764
B1 – B3	-	1.174	-	1.048
Unrated	586	678	586	678
	301.960	221.676	301.750	221.541

38.2 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.

38.2.1 Price risk

Equity investments 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. The prices of equity investments are being monitored by the Group on a regular basis.

The portfolio of equity investments at 31 December 2023 and 31 December 2022 comprises of a holding in one Alternative Investment Fund. More details are disclosed in Note 19.

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 or FVTPL 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 their price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.1 Price risk (continued)

Equity investments price risk (continued)

THE GROUP

	2023			2022		
	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 investments at FVTPL						
Non-listed investments	346	+20	69	142	+20	28
Non-listed investments	346	-20	(69)	142	-20	(28)

THE BANK

	2023			2022		
	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 investments at FVOCI						
Non-listed investments	1.321	+20	264	1.095	+20	219
Non-listed investments	1.321	-20	(264)	1.095	-20	(219)

Concentration of equity securities

	THE GROUP 2023 €'000	THE GROUP 2022 €'000	THE BANK 2023 €'000	THE BANK 2022 €'000
By sector				
Financial services	-	-	1.321	1.095
Shipping	346	142	-	-
	346	142	1.321	1.095

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.1 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 securities 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 AND THE BANK

	2023			2022		
	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 below A3 rated bonds	3.041	+10%	304	5.086	+10%	509
For below A3 rated bonds	3.041	-10%	(304)	5.086	-10%	(509)

Concentration of debt securities

	THE GROUP		THE BANK	
	2023 €'000	2022 €'000	2023 €'000	2022 €'000
By sector				
Sovereigns	40.651	85.688	40.651	85.688
Corporate bonds	4.705	4.541	4.705	4.541
	45.356	90.229	45.356	90.229
By country				
Cyprus	19.781	64.234	19.781	64.234
Greece	11.139	11.524	11.139	11.524
Italy	14.436	14.471	14.436	14.471
	45.356	90.229	45.356	90.229

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 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 rate 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 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 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 2023	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	299.605	-	-	-	-	802	300.407
Balances with other banks	1.354	1.002	-	-	-	-	2.356
Loans and advances	74.327	25.737	84.911	-	-	5.509	190.484
Investments in equities	-	-	-	-	-	346	346
Investments in debt securities	-	2.879	17.028	25.449	-	-	45.356
Investments in associates	-	-	-	-	-	744	744
Premises and equipment	-	-	-	-	-	6.746	6.746
Intangible assets	-	-	-	-	-	593	593
Tax receivable	-	-	-	-	-	279	279
Stock of property	-	-	-	-	-	8.579	8.579
Receivables and other assets	-	-	-	-	-	1.922	1.922
Total assets	375.286	29.618	101.939	25.449	-	25.520	557.812
LIABILITIES & EQUITY							
Bank borrowings	-	-	1.921	-	-	-	1.921
Client deposits	24.121	29.503	150.343	10.005	89	275.362	489.423
Deferred taxation	-	-	-	-	-	314	314
Accruals and other liabilities	-	-	-	-	-	8.968	8.968
Loan capital	-	-	-	-	6.250	5.011	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	37.270	37.270
Total liabilities and equity	24.121	29.503	152.264	10.005	6.339	335.580	557.812
Net position	351.165	115	(50.325)	15.444	(6.339)	(310.060)	-
Change in interest rates -1% - effect on profit	(3.512)	(1)	503	(154)	63	-	(3.101)
Change in interest rates +1% - effect on profit	3.512	1	(503)	154	(63)	-	3.101

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE GROUP 2022	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	219.426	-	-	-	-	938	220.364
Balances with other banks	1.250	1.000	-	-	-	-	2.250
Loans and advances	97.478	27.476	86.204	-	-	5.071	216.229
Investments in equities	-	-	-	-	-	142	142
Investments in debt securities	-	39.957	4.626	45.646	-	-	90.229
Investments in associates	-	-	-	-	-	670	670
Premises and equipment	-	-	-	-	-	6.386	6.386
Intangible assets	-	-	-	-	-	671	671
Stock of property	-	-	-	-	-	8.633	8.633
Receivables and other assets	-	-	-	-	-	1.941	1.941
Total assets	318.154	68.433	90.830	45.646	-	24.452	547.515
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.328	-	-	-	2.328
Client deposits	22.565	33.386	107.510	1.779	-	321.601	486.841
Deferred taxation	-	-	-	-	-	301	301
Accruals and other liabilities	-	-	-	-	-	8.355	8.355
Loan capital	-	-	-	-	6.250	5.011	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	29.774	29.774
Total liabilities and equity	22.565	33.386	109.838	1.779	6.250	373.697	547.515
Net position	295.589	35.047	(19.008)	43.867	(6.250)	(349.245)	-
Change in interest rates -1% - effect on profit	(2.956)	(350)	190	(439)	63	-	(3.492)
Change in interest rates +1% - effect on profit	2.956	350	(190)	439	(63)	-	3.492

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE BANK 2023	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	299.605	-	-	-	-	802	300.407
Balances with other banks	1.144	1.002	-	-	-	-	2.146
Loans and advances	74.327	25.737	84.911	-	-	5.509	190.484
Investments in debt securities	-	2.879	17.028	25.449	-	-	45.356
Investments and exposures in subsidiary companies	-	-	-	-	-	4.006	4.006
Premises and equipment	-	-	-	-	-	6.745	6.745
Intangible assets	-	-	-	-	-	593	593
Tax receivable	-	-	-	-	-	279	279
Stock of property	-	-	-	-	-	6.028	6.028
Receivables and other assets	-	-	-	-	-	1.174	1.174
Total assets	375.076	29.618	101.939	25.449	-	25.136	557.218
LIABILITIES & EQUITY							
Bank borrowings	-	-	1.921	-	-	-	1.921
Client deposits	24.121	29.503	150.343	10.005	89	275.362	489.423
Deferred taxation	-	-	-	-	-	314	314
Accruals and other liabilities	-	-	-	-	-	8.589	8.589
Loan capital	-	-	-	-	6.250	5.011	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	37.055	37.055
Total liabilities and equity	24.121	29.503	152.264	10.005	6.339	334.986	557.218
Net position	350.955	115	(50.325)	15.444	(6.339)	(309.850)	-
Change in interest rates -1% - effect on profit	(3.510)	(1)	503	(154)	63	-	(3.099)
Change in interest rates +1% - effect on profit	3.510	1	(503)	154	(63)	-	3.099

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE BANK 2022	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	219.426	-	-	-	-	938	220.364
Balances with other banks	1.115	1.000	-	-	-	-	2.115
Loans and advances	97.478	27.476	86.204	-	-	5.071	216.229
Investments in debt securities	-	39.957	4.626	45.646	-	-	90.229
Investments and exposures in subsidiary companies	-	-	-	-	-	5.700	5.700
Premises and equipment	-	-	-	-	-	6.384	6.384
Intangible assets	-	-	-	-	-	670	670
Stock of property	-	-	-	-	-	3.971	3.971
Receivables and other assets	-	-	-	-	-	972	972
Total assets	318.019	68.433	90.830	45.646	-	23.706	546.634
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.328	-	-	-	2.328
Client deposits	22.565	33.386	107.510	1.779	-	321.601	486.841
Deferred taxation	-	-	-	-	-	301	301
Accruals and other liabilities	-	-	-	-	-	7.638	7.638
Loan capital	-	-	-	-	6.250	5.011	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	29.610	29.610
Total liabilities and equity	22.565	33.386	109.838	1.779	6.250	372.816	546.634
Net position	295.454	35.047	(19.008)	43.867	(6.250)	(349.110)	-
Change in interest rates -1% - effect on profit	(2.955)	(350)	190	(439)	63	-	(3.491)
Change in interest rates +1% - effect on profit	2.955	350	(190)	439	(63)	-	3.491

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.3 Currency risk

Currency risk arises from adverse movements in exchange rates 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	2023			2022		
	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	602	+10	60	518	+10	52
British Pound	38	+10	4	30	+10	3
Russian Rouble	191	+30	57	188	+30	56
Other currencies	21	+10	2	37	+10	4
US Dollar	602	-10	(60)	518	-10	(52)
British Pound	38	-10	(4)	30	-10	(3)
Russian Rouble	191	-30	(57)	188	-30	(56)
Other currencies	21	-10	(2)	37	-10	(4)

THE BANK	2023			2022		
	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	107	+10	11	133	+10	13
British Pound	37	+10	4	28	+10	3
Russian Rouble	191	+30	57	188	+30	56
Other currencies	2	+10	-	22	+10	2
US Dollar	107	-10	(11)	133	-10	(13)
British Pound	37	-10	(4)	28	-10	(3)
Russian Rouble	191	-30	(57)	188	-30	(56)
Other currencies	2	-10	-	22	-10	(2)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.3 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.

Key liquidity ratios

The Group LCR is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. The regulatory minimum requirement has been set at 100%. The Group also calculates its NSFR as per Capital Requirements Regulation II (CRR II), enforced in June 2021, with the limit set at 100%. The NSFR is the ratio of available stable funding to required stable funding. NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The LCR of the Group as at 31 December 2023 was 355% (31 December 2022: 304%) and the Bank 354% (31 December 2022: 303%), well above the regulatory minimum requirement of 100%. The NSFR of the Group as at 31 December 2023 was 252% and the Bank 249%, well above the regulatory minimum requirement of 100% imposed in June 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

Analysis of financial liabilities according to their residual contractual maturities

The table below presents the discounted cash flows (values equal their carrying values).

THE GROUP

2023

	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
ON BALANCE SHEET						
Bank borrowings	-	-	437	1.484	-	1.921
Client deposits	299.483	29.503	150.343	10.005	89	489.423
Lease liability	19	25	132	174	447	797
Deferred taxation	-	-	-	-	314	314
Accruals and other liabilities	7.403	28	124	166	450	8.171
	306.905	29.556	151.036	11.829	1.300	500.626
OFF BALANCE SHEET						
Guarantees issued	414	1.462	9.414	10.757	506	22.553
Undrawn facilities	(9.278)	4.027	15.111	13.432	-	23.292
	(8.864)	5.489	24.525	24.189	506	45.845

2022

	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
ON BALANCE SHEET						
Bank borrowings	-	-	429	798	1.101	2.328
Client deposits	344.166	33.386	107.510	1.779	-	486.841
Lease liability	19	25	131	482	-	657
Deferred taxation	-	-	-	-	301	301
Accruals and other liabilities	7.297	70	107	142	82	7.698
	351.482	33.481	108.177	3.201	1.484	497.825
OFF BALANCE SHEET						
Guarantees issued	670	2.135	6.478	9.090	832	19.205
Undrawn facilities	(9.338)	4.385	12.686	11.276	-	19.009
	(8.668)	6.520	19.164	20.366	832	38.214

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

THE BANK

2023

	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
ON BALANCE SHEET						
Bank borrowings	-	-	437	1.484	-	1.921
Client deposits	299.483	29.503	150.343	10.005	89	489.423
Lease liability	19	25	132	174	447	797
Deferred taxation	-	-	-	-	314	314
Accruals and other liabilities	7.024	28	124	166	450	7.792
	306.526	29.556	151.036	11.829	1.300	500.247
OFF BALANCE SHEET						
Guarantees issued	414	1.462	9.414	10.757	506	22.553
Undrawn facilities	(9.278)	4.027	15.111	13.432	-	23.292
	(8.864)	5.489	24.525	24.189	506	45.845

2022

	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
ON BALANCE SHEET						
Bank borrowings	-	-	429	798	1.101	2.328
Client deposits	344.166	33.386	107.510	1.779	-	486.841
Lease liability	19	25	131	174	308	657
Deferred taxation	-	-	-	-	301	301
Accruals and other liabilities	6.624	24	107	142	84	6.981
	350.809	33.435	108.177	2.893	1.794	497.108
OFF BALANCE SHEET						
Guarantees issued	670	2.135	6.478	9.090	832	19.205
Undrawn facilities	(9.094)	4.139	12.687	11.277	-	19.009
	(8.424)	6.274	19.165	20.367	832	38.214

Encumbered assets

Balances with other banks as at 31 December 2023 include encumbered amounts of €1 million (31 December 2022: €1 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.4 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.

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.

38.5 Capital management

The primary objective of the Group's capital management is to ensure compliance with the applicable regulatory capital requirements and to maintain healthy capital adequacy ratios which can support the Group's business and safeguard the interest of its shareholders and all other stakeholders.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

On 27 June 2019, the revised rules on capital and liquidity (Regulation (EU) 2019/876 (CRR II) and Directive (EU) 2019/878 (CRD V)) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities (MREL)), but most changes became effective as of June 2021. The key changes introduced consist of, among others, changes to qualifying criteria for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement (as defined in the CRR) and a Net Stable Funding Ratio (NSFR).

The amendments that came into effect on 28 June 2021 are in addition to those introduced in June 2020 through Regulation (EU) 2020/873, which among other, brought forward certain CRR II changes in light of the COVID 19 pandemic. The main adjustments of Regulation (EU) 2020/873 that had an impact on the Group's capital ratio relate to the acceleration of the implementation of the new SME discount factor (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 in this starting from 2022 (phasing in at 25% in 2022, 50% in 2023 and 75% in 2024).

Basel III Framework comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory Review and Evaluation Process (SREP)
- Pillar 3 – Market discipline

Pillar 1 – Minimum capital requirements

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Group uses the Standardised Approach for the calculation of minimum capital requirements against credit risk and the financial collateral simple method for credit risk mitigation purposes. The Group adopts the Basic Indicator Approach for the calculation of capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a 15% (as defined in CRR) on the average sum of total net income on a three-year basis net of non-recurring income.

Pillar 2 – Supervisory Review and Evaluation Process ("SREP")

Pillar 2 aims to enhance the link between an institution’s risk profile, its risk management and risk mitigation systems, and its capital planning. The process can be divided into two major components:

- An internal assessment by the institution on internal governance, risk management, stress testing frameworks, business model and strategy, known as Internal Capital and Liquidity Adequacy Assessment Process ('ICAAP/ILAAP')

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

- A Supervisory Review and Evaluation Process ('SREP'), of which its key purpose is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms, as well as capital and liquidity to ensure a sound management and coverage of their risks to which they are or might be exposed to. This includes risks arising from stress testing exercises and risks an institution may pose to the financial system.

The Bank is in the process of preparation of its ICAAP/ILAAP report for the year 2023.

Pillar 3 – Market discipline

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

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

The Group closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interest of its shareholders.

Pillar 3 disclosures are published on the Bank’s website.

In October 2021, the European Commission adopted legislative proposals for further amendments to CRR, CRD and the BRRD (the '2021 Banking Package'). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package includes:

- a proposal for a Regulation (sometimes known as 'CRR III') to make amendments to CRR with regard to (amongst other things) requirements on credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor;
- a proposal for a Directive (sometimes known as 'CRD VI') to make amendments to CRD with regard to (amongst other things) requirements on supervisory powers, sanctions, third-country branches and ESG risks; and
- a proposal for a Regulation to make amendments to CRR and the BRRD with regard to (amongst other things) requirements on the prudential treatment of G-SII groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the MREL requirements.

The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

The European Council's prosposal on CRR and CRD was published on 8 November 2022. In February 2023, the European Parliament's ECON Committee voted to adopt Parliament's proposed amendments to the Commission's proposal. In June 2023, negotiators from the Council presidency and the European Parliament reached a provisional agreement on amendments to the Capital Requirements Regulation and the Capital Requirements Directive and were endorsed in December 2023 by the preparatory bodies of the Council and European Parliament. With the decisions taken by the Council and European Parliament preparatory bodies, the legal texts have now been published on the Council and the Parliament websites. Although still subject to legal revision and to the final vote in the Plenary, no changes in substance are expected until its adoption by the European Parliament by the second quarter of 2024. It is expected that these provisions will come into force on 1 January 2025 and certain measures are expected to be subject to transitional arrangements or to be phased-in over time.

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 1 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, and with up to 2,00% by Tier 2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar 1 capital requirements (Pillar 2 add-ons). Applicable Regulation allows a part of the Pillar 2 Requirements (P2R) to be met also with AT1 and T2 capital and does not require solely the use of CET1. In the context of the annual SREP conducted by CBC in 2021 and based on the final 2021 SREP decision received on 8 February 2023, Pillar 2 requirement was set at 5,50% compared to the previous level of 5,20%, resulting to a minimum CET 1 regulatory requirement of 10,094% (from 9,93%) and to a minimum Total regulatory Capital requirement of 16,00% (from 15,70%) effective as of 8 February 2023. In addition to Pillar 2 requirement, the final SREP 2021 decision introduced Pillar 2 Guidance which should be comprised entirely of CET 1 capital and held over and above the OCR.

In addition to the total SREP capital requirement, the Group is also required to maintain a Capital Conservation Buffer of 2,50% to be met entirely by CET 1 Capital.

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the countercyclical buffer rate from 0,00% to 0,50% of the total risk exposure amount of each licensed credit institution incorporated in Cyprus. The new rate of 0,50% became applicable as from 30 November 2023. The CCyB for the Group as at 31 December 2023 has been calculated at 0,50%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

Based on the above, on 31 December 2023 the Group was required to maintain on a consolidated basis a minimum CET 1 ratio of 10,594% (31.12.2022: 9,93%) and an overall capital adequacy ratio of 16,50% (31.12.2022: 15,70%) as shown below:

Minimum CET1 Regulatory Capital Requirements	2023	2022
Pillar 1 – CET 1 Requirement	4,50%	4,50%
Pillar 2 – CET 1 Requirement	3,094%	2,93%
Capital Conservation Buffer	2,50%	2,50%
Countercyclical Buffer	0,50%	-
Minimum CET 1 Regulatory Requirements	10,594%	9,93%

Minimum Total Capital Regulatory Requirements	2023	2022
Pillar 1 – Total Capital Requirement	8,00%	8,00%
Pillar 2 – Total Capital Requirement	5,50%	5,20%
Capital Conservation Buffer	2,50%	2,50%
Countercyclical Buffer	0,50%	-
Minimum Total Capital Regulatory Requirements	16,50%	15,70%

Furthermore, on 2 June 2023, CBC announced its decision to raise the CCyB rate to 1,00% (from 0,50%) of the total risk exposure amount in Cyprus of each licensed credit institution incorporated in Cyprus. The increase of CCyB is effective as from 2 June 2024. As a result of the increase of CCyB, both CET 1 and OCR minimum capital requirements for the Group and the Bank are expected to increase by 0,50% as from 2 June 2024.

The Group 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 impact was fully phased in by 1 January 2023.

CET 1 ratio as at 31 December 2023 stood at 20,56%, 997 bps above the minimum regulatory CET 1 of 10,594%. The Group's Overall Capital Ratio (OCR) as at 31 December 2023 stood at 25,68%, 918 bps above the minimum regulatory OCR of 16,50%. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to ensure compliance with the relevant regulatory capital requirements and to maintain healthy capital adequacy ratios to cover the risk of its business and support its strategy.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

The Group's regulatory capital is analysed as follows:

Common Equity Tier 1 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 1 Capital: It includes the Perpetual Unsecured Subordinated Note (note 32).

Tier 2 Capital: It includes Unsecured Subordinated Bonds (note 32).

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

	THE GROUP		THE BANK	
	2023	2022	2023	2022
	€'000	€'000	€'000	€'000
Transitional basis:				
Regulatory capital				
Common Equity Tier 1	45.204	38.524	45.095	38.440
Additional Tier 1	5.000	5.000	5.000	5.000
Tier 2	6.250	6.250	6.250	6.250
Total regulatory capital	56.454	49.774	56.345	49.690
Risk weighted assets				
Credit risk	188.567	215.812	188.981	216.056
Operational risk	31.310	24.395	30.910	24.610
Total risk weighted assets	219.877	240.207	219.891	240.666
Common Equity Tier 1 ratio	**20,56%**	**16,04%**	**20,51%**	**15,97%**
T1 Capital ratio	**22,83%**	**18,12%**	**22,78%**	**18,05%**
Overall capital adequacy ratio	**25,68%**	**20,72%**	**25,62%**	**20,65%**

The capital ratios of the Group and the Bank as at the reporting date on a fully loaded basis are presented below:

	THE GROUP		THE BANK	
	2023	2022	2023	2022
Fully loaded basis:				
Common Equity Tier 1 ratio	**20,56%**	**15,75%**	**20,51%**	**15,68%**
T1 Capital ratio	22,83%	17,84%	22,78%	17,77%
Overall capital adequacy ratio	**25,68%**	**20,45%**	**25,62%**	**20,37%**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

38. RISK MANAGEMENT (continued)

38.6 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 2023 was 8,72% (31 December 2022: 7,71%), and the Bank 8,70% (31 December 2022: 7,70%), well above the 3% minimum threshold applied by the competent authorities.

38.7 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.

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. BRRD II was transposed and implemented in Cyprus law in early May 2021. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

The Central Bank of Cyprus in its capacity as the National Resolution Authority of Less Significant Institutions (LSIs) sets and monitors minimum MREL requirements. On 25 April 2024, CBC communicated to the Bank its final decision for the determination of MREL, by which MREL requirement for the Bank was set at 16,00% of total risk weighted assets (RWAs) and 4,25% of total leverage ratio exposure (LRE). The MREL requirement is the sum of Pillar 1 capital requirement of 8,00%, Pillar 2 capital requirement of 5,50% and Loss Absorption Amount Add-on (LAA Add-on) capital requirement of 2,50% which should be met by 31 December 2024. Until then, the Bank should comply as a minimum with the intermediate target of 14,50% of its total risk exposure amount and 4,25% of its total leverage ratio exposure ("Interim Binding MREL Ratios"). The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) is not eligible to meet its MREL requirements expressed in terms of risk-weighted assets. The MREL ratio of the Group as at 31 December 2023 stood at 22,68% (31.12.2022: 18,22%), 668 bps above the MREL final target of 16,00% and 818 bps above the interim binding MREL ratio of 14,5%. The Group leverage ratio as at 31 December 2023 stood at 8,72% (31.12.2022: 7,71%). The MREL requirement as at 31 December 2023 was met with regulatory capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

39. CATEGORISATION OF FINANCIAL INSTRUMENTS

THE GROUP	Carrying amount €'000	Securities classified at FVTPL €'000	Securities at amortised cost €'000	Securities classified at FVOCI €'000	Other at amortised cost €'000
31 December 2023					
Assets					
Cash and balances with central banks	300.407	-	-	-	300.407
Balances with other banks	2.356	-	-	-	2.356
Loans and advances	190.484	-	-	-	190.484
Equity investments	346	346	-	-	-
Debt securities	45.356	-	42.315	3.041	-
	538.949	346	42.315	3.041	493.247
Liabilities					
Bank borrowings	1.921	-	-	-	1.921
Client deposits	489.423	-	-	-	489.423
Loan capital	11.261	-	-	-	11.261
	502.605	-	-	-	502.605
31 December 2022					
Assets					
Cash and balances with central banks	220.364	-	-	-	220.364
Balances with other banks	2.250	-	-	-	2.250
Loans and advances	216.229	-	-	-	216.229
Equity investments	142	142	-	-	-
Debt securities	90.229	-	85.143	5.086	-
	529.214	142	85.143	5.086	438.843
Liabilities					
Bank borrowings	2.328	-	-	-	2.328
Client deposits	486.841	-	-	-	486.841
Loan capital	11.261	-	-	-	11.261
	500.430	-	-	-	500.430

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

39. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

THE BANK	Carrying amount €'000	Securities at amortised cost €'000	Securities classified at FVOCI €'000	Other at amortised cost €'000
31 December 2023				
Assets				
Cash and balances with central banks	300.407	-	-	300.407
Balances with other banks	2.146	-	-	2.146
Loans and advances	190.484	-	-	190.484
Debt securities	45.356	42.315	3.041	-
	538.393	42.315	3.041	493.037
Liabilities				
Bank borrowings	1.921	-	-	1.921
Client deposits	489.423	-	-	489.423
Loan capital	11.261	-	-	11.261
	502.605	-	-	502.605
31 December 2022				
Assets				
Cash and balances with central banks	220.364	-	-	220.364
Balances with other banks	2.115	-	-	2.115
Loans and advances	216.229	-	-	216.229
Debt securities	90.229	85.143	5.086	-
	528.937	85.143	5.086	438.708
Liabilities				
Bank borrowings	2.328	-	-	2.328
Client deposits	486.841	-	-	486.841
Loan capital	11.261	-	-	11.261
	500.430	-	-	500.430

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

40. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

THE GROUP	2023 Less than one year €'000	2023 Over one year €'000	2023 Total €'000	2022 Less than one year €'000	2022 Over one year €'000	2022 Total €'000
ASSETS						
Cash and balances with central banks	295.721	4.686	300.407	215.805	4.559	220.364
Balances with other banks	2.356	-	2.356	2.250	-	2.250
Loans and advances	52.166	138.318	190.484	65.826	150.403	216.229
Investments in equities	-	346	346	-	142	142
Investments in associates	-	744	744	-	670	670
Investments in debt securities	19.907	25.449	45.356	44.582	45.647	90.229
Premises and equipment	-	6.746	6.746	-	6.386	6.386
Intangible assets	-	593	593	-	671	671
Tax receivable	-	279	279	-	-	-
Stock of property	8.579	-	8.579	8.633	-	8.633
Receivables and other assets	1.284	638	1.922	1.274	667	1.941
Total assets	**380.013**	**177.799**	**557.812**	**338.370**	**209.145**	**547.515**
LIABILITIES						
Bank borrowings	437	1.484	1.921	428	1.900	2.328
Client deposits	479.329	10.094	489.423	485.062	1.779	486.841
Deferred taxation	-	314	314	-	301	301
Accruals and other liabilities	7.732	1.236	8.968	8.131	224	8.355
Loan capital	11	11.250	11.261	11	11.250	11.261
Total liabilities	**487.509**	**24.378**	**511.887**	**493.632**	**15.454**	**509.086**

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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.

THE BANK	2023 Less than one year €'000	2023 Over one year €'000	2023 Total €'000	2022 Less than one year €'000	2022 Over one year €'000	2022 Total €'000
ASSETS						
Cash and balances with central banks	295.721	4.686	300.407	215.805	4.559	220.364
Balances with other banks	2.146	-	2.146	2.115	-	2.115
Loans and advances	52.166	138.318	190.484	65.826	150.403	216.229
Investments in debt securities	19.907	25.449	45.356	44.582	45.647	90.229
Investments and exposures in subsidiary companies	2.657	1.349	4.006	4.576	1.124	5.700
Premises and equipment	-	6.745	6.745	-	6.384	6.384
Intangible assets	-	593	593	-	670	670
Tax receivable	-	279	279	-	-	-
Stock of property	6.028	-	6.028	3.971	-	3.971
Receivables and other assets	1.028	146	1.174	846	126	972
Total assets	**379.653**	**177.565**	**557.218**	**337.721**	**208.913**	**546.634**
LIABILITIES						
Bank borrowings	437	1.484	1.921	428	1.900	2.328
Client deposits	479.329	10.094	489.423	485.062	1.779	486.841
Deferred taxation	-	314	314	-	301	301
Accruals and other liabilities	7.353	1.236	8.589	7.412	226	7.638
Loan capital	11	11.250	11.261	11	11.250	11.261
Total liabilities	**487.130**	**24.378**	**511.508**	**492.913**	**15.456**	**508.369**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

41. SHAREHOLDERS

The shareholding structure at 31 December 2023 is shown below:

	Shareholding structure as at 31.12.2023	
	Number of shares	% of total
7Q Invest AIF V.C.I.C. PLC I Multi Opportunities	6.681.171	15,44%
7Q Holdings Ltd	1.188.447	2,75%
7Q Financial Services Ltd	781.250	1,80%
Path Holdings Ltd	8.197.836	18,94%
Constantinos Shiacolas	7.058.982	16,31%
Delphis Ependysis Ltd	6.064.370	14,01%
8Safe International Ltd	4.284.322	9,90%
Intergaz Ltd	4.106.922	9,49%
Leon Investment SARL	2.102.881	4,86%
Leonidas Ioannou	1.510.571	3,49%
Adamos Christodoulou	695.000	1,61%
Shareholders with holdings below 1%	604.227	1,40%

On 4 May 2023, 695.000 ordinary shares of nominal value €0,20 each, were transferred to Adamos Christodoulou from Delphis Ependysis Ltd.

On 3 March 2022, 2.975.976 ordinary shares of nominal value €0,20 each, were transferred to 7Q Invest AIF V.C.I.C. PLC I Multi Opportunities from Path Holdings Ltd (961.359 shares), Constantinos Shiacolas (837.961 shares), Delphis Investments Ltd (708.254 shares) and Intergaz Ltd (468.402 shares).

On 31 March 2022, 781.250 ordinary shares of nominal value €0,20 each, were transferred to 7Q Holdings Ltd from 7Q Financial Services Ltd.

On 31 March 2022, 1.351.621 ordinary shares of nominal value €0,20 each, were transferred to 7Q Invest AIF V.C.I.C. PLC I Multi Opportunities from Path Holdings Ltd (436.628 shares), Constantinos Shiacolas (380.589 shares), Delphis Investments Ltd (321.672 shares) and Intergaz Ltd (212.732 shares).

On 21 September 2022, 609.556 ordinary shares of nominal value €0,20 each, were transferred from CLR Investment Fund Public Ltd to Path Holdings Ltd (169.183 shares), Constantinos Shiacolas (169.182 shares), Delphis Investments Ltd (169.183 shares) and Intergaz Ltd (102.008 shares).

On 21 September 2022, 67.175 ordinary shares of nominal value €0,20 each, were transferred from Natia Ioannidou to Intergaz Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

41. SHAREHOLDERS (continued)

On 22 December 2022, 2.944.018 ordinary shares of nominal value €0,20 each, were transferred from Loramina Trading Ltd to Path Holdings Ltd (612.566 shares), Constantinos Shiacolas (527.302 shares), Delphis Investments Ltd (1.151.399 shares), Intergaz Ltd (306.807 shares) and Lonyas Holding Ltd (345.944 shares). Lonyas Holding Ltd is a new sharehoder with holding of 0,80% included in the above table under the "Shareholders with holdings below 1%".

42. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

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

	2023 €'000	2022 €'000
Director emoluments		
Executives		
Salaries	284	271
Employer's contributions for social insurance, etc	30	28
Retirement benefits	25	24
	339	323
Non-Executives		
Fees	254	222
	593	545
Key management personnel emoluments		
Salaries	450	555
Employer's contributions for social insurance, etc	60	70
Retirement benefits	40	50
	550	675
Total	1.143	1.220

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 2023 and 2022 include the remuneration of the members of the EXCO committee with voting rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

42. RELATED PARTY TRANSACTIONS (continued)

Transactions with members of the Management Body and connected persons:

	2023 €'000	2022 €'000
Loans and advances	153	575
Deposits	253	158
Loan capital - Subordinated Tier 2 Bonds	556	556
Unutilised limits	11	43
Assets under custody	2.256	96
Interest and other income for the year	5	15
Interest expense for the year	(40)	(40)

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.

	2023 €'000	2022 €'000
Loans and advances	51	125
Deposits	194	174
Guarantees and unutilised limits	38	92
Interest and other income for the year	2	2
Interest expense for the year	(1)	-

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

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 and/or hold directly or indirectly more than twenty percent (20%) of the issued share capital of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

42. RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders (continued)

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

As at 31 December 2023 and 31 December 2022, there were no shareholders who had significant influence over the Bank and/or held directly or indirectly more than 20% of the issued share capital of the Bank.

During the year ended 31 December 2023, there were no purchases of goods and services from Shareholders with significant influence and their connected persons as defined above (31 December 2022: nil).

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

Transactions with associates

	2023 €'000	2022 €'000
Loans and advances	587	597
Other trading receivables	18	11
Trading account payable	587	491
Guarantees and unutilised limits	3	3
Interest income for the year	32	38
Other trading income for the year	73	57

Transactions with subsidiaries

Balances and transactions with subsidiary companies are disclosed under Note 21 to the Financial Statements.

43. MATERIAL LITIGATION

As at 31 December 2023, there were pending litigations against the bank arising in the ordinary course of the Bank's business. Based on the information available, the Group has not recorded a provision against these cases either because the probability of outflow is considered low or it is too early to make an assessment.

Claims relating to execution of transactions

In September 2021 the Bank was served with a legal action against it by a client claiming certain wrongdoings by the Bank in accepting transfer instructions which allegedly relate to fraud by a third person. The litigation procedures are at a very early stage, and the Bank is closely monitoring this claim.

NOTES TO THE FINANCIAL STATEMENTS

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44. OPERATING ENVIRONMENT

During 2023 the economy of Cyprus exhibited an anticipated slowdown compared to the strong post-pandemic rebound of 2021 and 2022, mainly due to a lower external demand for non-tourism services. According to the key bodies' averaged data (Ministry of Finance, Central Bank, European Commission), the 2023 GDP growth was 2,4%, compared to 6,6% and 5,6% for 2021 and 2022, respectively. This performance compares favourably with the euro area and EU annual growth for 2023, currently estimated to be limited to 0,5%. The outlook of the Cyprus economy in the medium-to-long run remains positive, based to a significant extent on its ability to exhibit a remarkable resilience to external shocks. The 2024 GDP growth forecasts for 2024 average to 2,8%, whereas for 2025 and 2026 forecasts increase to 3,1% and 3,2% respectively. Cyprus holds an investment grade rating with all major credit rating agencies. The international geopolitical developments continue to represent a major source of uncertainty globally, with direct impact on economic activity, inflation and monetary policies. In this context, GDP forecasts require continuous monitoring in order to ensure that they reflect the fast and dynamic prevailing conditions.

During 2023 banks enjoyed a significant improvement of their operating results and overall financial and capital position. The banking sector benefited from the favourable interest rate conditions, the significant reduction of the non-performing exposure levels after costly and persistent efforts and the satisfactory performance of the Cyprus economy. Indicatively, the combined net profit of the three largest banks during 2023 increased by 465% and their combined equity by 29%, despite the loans remaining at 2022 levels. The improved financial position of banks was also reflected by the 2023 share price gains of listed banks, which ranged from 55% to 97%. Despite the improved financial performance and the strong liquidity position, banks remain cautious and monitor closely the economic outlook in Cyprus and the EU and the international geopolitical developments and conditions. The banks also monitor closely the interest rates environment, focusing on components such as the narrowing of the spread between the cost of deposits and the ECB Deposit Facility Rate and the impact of higher interest rates and cost of living on the capacity of borrowers to service their loans.

Tourism has further established its importance as a core revenue contributor of the Cyprus economy. According to the Statistical Service, tourist arrivals for 2023 reached 3,85 million achieving an increase of 20,1% over 2022. At the same time, revenue from tourism for 2023 reached €2,99 million, recording an increase of 22,6% over 2022. The 2023 tourist arrivals were the third-best performing year, surpassed only by the record years 2018 and 2019. This performance highlights the prospects of the tourism industry, taking into consideration that it was achieved amidst geopolitical developments which had a negative impact on arrivals from key sources of tourism (Russia, Israel), as well as economic and post-COVID related challenges. The prospects for 2024 are positive, as suggested by the 1,6% increase in tourist arrivals for the first two months of 2024. Market participants appear to be cautiously optimistic for 2024.

As regards inflation, following the 8,3% peak of 2022 and the decline to 3,9% for 2023, it heads for a significantly lower level of 2,5% for 2024 and 2% for 2025 and 2026. As it is the case with GDP growth, the 2023 inflation rate compared favourably with the respective rates of the euro area and the EU, expected to be 6,3% and 5,4%, respectively. Cyprus also maintains an advantage as regards the 2024 and 2025 inflation forecasts, estimated to be 0,3% and 0,2%, respectively. The international geopolitical developments, as evidenced through the Ukraine and Middle East cases, suggest that there is still significant uncertainty as regards the path of inflation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

44. OPERATING ENVIRONMENT (continued)

During 2023 the employment conditions continued to reflect the post-COVID improved economic activity. According to the Labour Force Survey of the Statistical Service, during the fourth quarter of 2023 the unemployment level was 5,9%, recording a decline of 1 p.p. compared to the respective period in 2022. Specifically, at the end of 2023 the total labour force was 491.929 persons (2022: 489.650 persons), out of which 29.047 were registered as unemployed (2022: 33.922 persons). According to the December 2023 Economic Bulletin of the Central Bank of Cyprus, the unemployment forecast for 2023 is 6,4%, compared to 6,8% for 2022. A further unemployment rate decline is forecasted for the next three years, expected to drive employment closer to full employment levels. Specifically, the forecast is 6,0% for 2024, 5,6% for 2025 and 5,3% for 2026.

The real estate sector continued to be a significant driver of the Cyprus economy. The limited supply and high demand from local and foreign buyers continued to yield increases in volume and value of transactions. According to the Department of Lands and Surveys ("DLS"), the number of registered contracts of sales reached 15.567 achieving an increase of 16% over 2022. To put this performance in perspective, the respective number was 7.968 contracts for 2020, 4.952 contracts for 2015 and 8.598 contracts for 2010. According to DLS, 18.824 transfers of sales were recorded in 2023 (+2,3% over 2022), for an accepted total value of €4,399 billion (+5,2%). The average annual growth of the total accepted value reached 17,2% since 2020, and 8,7% since 2015. As regards building permits, according to the Statistical Service, the 2023 total value was €242,2 million (+16,4% over 2022) and total area 203,4 thousand square metres (+4,3%), despite a decline in the number of permits to 7.170 (-5,7%). As regards prices, according to the RICS Cyprus Property Index with KPMG in Cyprus, during the last quarter of 2023 market values recorded y-o-y increase in all asset classes; 9,5% for apartments, 6,5% for houses, 5% for warehouses, 3,5% for offices and 0,3% for retail. This performance indicates the momentum maintained by the real estate sector, as for 2023 was achieved amidst challenging conditions such as higher prices and higher borrowing and construction cost, as well as economic and political (for foreign investors) uncertainty. According to the Economic Bulletin of the Central Bank of Cyprus for the third quarter of 2023, demand from foreign buyers is attributed mainly to foreign companies opting to headquarter in Cyprus, mainly from Israel, Ukraine, the UK, Lebanon, and Belarus; demand from domestic buyers is attributed, among other reasons, to investments for rental purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

44. OPERATING ENVIRONMENT (continued)

Being a member of the euro zone, Cyprus is directly impacted by the monetary decisions of the European Central Bank's Governing Council. ECB offered nil to negative deposit facility rates from July 2012 to June 2022, whereas a series of increases aiming to bring inflation back on track (medium-term target is 2%) drove the said rate to 4% in September 2023. The restrictive level of policy rates had a significant impact on both the lending and deposit rates in Cyprus, leading initially to a large widening of the spread of lending rates over deposit rates. Indicatively, the average net interest margin of the two largest banks increased from 1,63% in 2022 to 3,03% in 2023. According to the December 2023 Economic Bulletin of the Central Bank of Cyprus, the quality of banks' loan portfolios does not seem to have been particularly affected so far by the increased lending rates and prices constraining the disposable income of households and businesses. As regards the outlook of ECB's future monetary policy decisions, its Governing Council has so far reiterated its determination to ensure that inflation returns to its 2% medium-term target in a timely manner, and to set policy rates at sufficiently restrictive levels for as long as necessary. ECB's inflation projection for the euro area is down to 2,3% for 2024, 2,0% for 2025 and 1,9% for 2026. At the same time, growth was also revised down, to 0,6% for 2024, 1,5% for 2025 and 1,6% for 2026. ECB has also reiterated that its interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission.

45. EVENTS AFTER THE REPORTING PERIOD

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