The Cyprus Development Bank Group

Annual Report and Consolidated and Separate Financial Statements

For the year ended 31 December 2022

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DIRECTORS AND ADVISERS

Management Body

Christodoulos Patsalides, Chairman, Non-Executive

Andreas Hadjikyrou, Vice-Chairman, Non-Executive (appointed on 03 March 2022)

Avgoustinos Papathomas, Senior Independent, Non-Executive

Stalo Koumidou, Non-Executive (appointed on 02 February 2022)

George Loizou, Non-Executive (resigned on 23 July 2022)

Konstantinos Mitropoulos, Non-Executive (appointed on 29 April 2022)

George Pavlides, Non-Executive (resigned on 26 July 2022)

Christodoulos Plastiras, Non-Executive

Dimitrios P. Sioufas, Non-Executive (appointed on 29 June 2022)

Demetris Sparsis, Non-Executive (appointed on 14 November 2022)

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 the members its annual report together with the audited financial statements of the Bank and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2022.

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 42.

Income Statement Analysis

Total net income

Total net income for the year ended 31 December 2022 amounted to €13,3 million, compared to €12,5 million for the year ended 31 December 2021, an increase of 7% mainly driven by the increase in the net interest income net of the decrease of non-interest income as explained below.

Net interest income

Net interest income (NII) for the year ended 31 December 2022 amounted to €9,9 million, up by 12% compared to €8,8 million for the year ended 31 December 2021. The annual increase of 12% was driven by higher interest rates in the second half of the year, when ECB began raising interest rates in July 2022. The increase of interest rates had a particularly positive impact on interest from liquids which reprice immediately.

The Group’s average interest earning assets for 2022 amounted to €504 million (2021: €497 million), an increase of 1% compared to last year, while net interest margin for 2022 amounted to 1,96% (2021: 1,77%).

Non-interest income

Net non-interest income for the year ended 31 December 2022 amounted to €3,4 million, down by 8% compared to €3,7 million for the year ended 31 December 2021, comprising of net fee and commission income of €3,0 million (2021: €2,7 million), net foreign exchange gains of €0,04 million (2021: €0,3 million), net gains on disposal of stock of property €0,2 million (2021: €0,2 million), and other income of €0,2 million (2021: €0,5 million). The yearly decrease of 8% (€0,3 million) is mainly attributable to lower net foreign exchange gains by €0,3 million in 2022 compared to 2021.

Net fee and commission income for the year ended 31 December 2022 amounted to €3,0 million, compared to €2,7 million for the year ended 31 December 2021, an increase of 12% mainly driven by higher fees from brokerage, advisory and management fees and commissions.

Net foreign exchange gains for the year ended 31 December 2022 amounted to €39 thousand, compared to €352 thousand for the year ended 31 December 2021, the decrease reflecting the impact from the closure of the Bank’s USD correspondent account in April 2021.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Non-interest income (continued)

Other income for 2022 amounted to €0,4 million (2021: €0,7 million), comprising mainly of profit on disposal of stock of property of €0,2 million (2021: €0,2 million) and rental income from REOs of €0,2 million (2021: €0,2 million). Other income in 2021 includes negative goodwill of €0,3 million on the acquisition, by the Bank's subsidiary Global Capital Ltd, of equity holding in CLR investment Fund Public Ltd which was classified as an associate.

Expenses

Total expenses for the year ended 31 December 2022 amounted to €13,2 million, compared to €12,6 million for the year ended 31 December 2021, up by 5%. 61% of total expenses related to staff costs (€8,0 million), 27% to other operating expenses (€3,5 million), 6% to depreciation (€0,8 million) and 6% to special levy on deposits and other levies and contributions (€0,8 million). The annual increase is mainly driven by increase in staff costs and other operating expenses. Further details are provided below.

Group staff costs for 2022 amounted to €8,0 million compared to €7,7 million for 2021, an increase of 5%. The main driver of the increase was the annual increments to staff as per collective agreements with the Cyprus Union of Bank Employees.

The Group's other operating expenses (including depreciation) for 2022 amounted to €4,3 million up by 6% compared to €4,1 million for 2021, mainly driven by higher regulatory fees up by 44%, IT expenses up by 10%, utilities and other operating expenses up by 16% and 23% respectively due to inflationary pressures.

Special levy on deposits and other levies/contributions for 2022 amounted to €0,8 million, remaining at the same level of 2021.

The cost to income ratio excluding special levy on deposits and other levies/contributions for 2022 was 93% compared to 94% for 2021. The small decrease is driven by higher total net income.

The cost to income ratio excluding special levy on deposits and other levies/contributions for 2023 is expected to decrease to c. 60% driven mainly by higher interest income.

Provisions for impairment

The Group's total provisions for impairment for 2022 amounted to €0,2 million compared to €1,1 million for 2021.

Total provisions for impairment comprise of impairment reversals on loans and advances of €0,4 million (2021: charge of €1,2 million), impairment charge on financial guarantees and commitments €0,02 million (2021: reversal of €0,6 million) impairment losses on valuation of stock of property of €0,3 million (2021: €0,6 million) and changes in contractual cash flows due to modifications of €0,3 million (2021: €nil).

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Provisions for impairment (continued)

The net reversal of impairments on loans and advances was driven by recoveries of €0,9 million on settlements implemented during the year on the non-performing loan portfolio and reversals of ECLs on stage 1 and stage 2 loans mainly as a result of the improvement of the forward-looking macroeconomic outlook, netted off by €1 million charge on stage 3 loans.

Statement of Financial Position Analysis

The Group's total assets as at 31 December 2022 amounted to €548 million presenting an increase of 6% compared to €516 million as at 31 December 2021, driven by the increase of customer deposits during the year which 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 46.

Liquidity

As at 31 December 2022, the Group Liquidity Coverage Ratio (LCR) stood at 304% (31.12.2021: 268%), well above the regulatory minimum requirement of 100%. The liquidity surplus in LCR at 31 December 2022 amounted to €202 million (31.12.2021: €172 million).

At 31 December 2022, the Group Net Stable Funding Ratio (NSFR) stood at 214% (31.12.2021: 194%), with the minimum regulatory requirement at 100%.

Liquid assets

The Group's carrying value of liquid assets amounted to €313 million as at 31 December 2022, an increase of 11% compared to €282 million as at 31 December 2021. Liquid assets represent 57% of the total assets of the Group as at 31 December 2022 (31.12.2021: 55%), and comprise of cash and balances with Central Bank of €220 million (31.12.2021: €167 million), placements with other banks of €2 million (31.12.2021: €3 million) and investments in debt securities of €90 million (31.12.2021: €112 million).

Loans and advances to customers

The Group's gross loans and advances as at 31 December 2022 amounted to €250 million, decreasing by 5% compared to €263 million as at 31 December 2021 mainly due to resolution of NPEs.

Loan portfolio quality

The Group continued its efforts for the resolution of NPEs and improvement of the quality of the loan portfolio. In its NPE Plan for 2022, 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 2022, the Group deployed all available tools to manage NPEs, namely restructurings, debt-for-asset swaps, foreclosures, legal measures, receiverships and examinerships.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Loans and advances to customers (continued)

The target set for 2022, was the decrease of NPEs by 25% from €95,8 million at the end of 2021 to €71,4 million by the end of 2022. During 2022 through the successful implementation of internal actions defined in the NPE Plan for 2022, the 2022 NPE target was exceeded, with NPEs decreasing by 32% from €95,8 million to €65,3 million. Furthermore, the NPE ratio on a gross basis decreased from 36,4% at the end of 2021 to 26,2% at the end of 2022, while on a net basis the NPE ratio decreased from 23,8% at the end of 2021 to 16,0% at the end of 2022.

The NPEs provision coverage ratio remained relatively unchanged at 46,9% at 31 December 2022, compared to 46,7% at 31 December 2021, despite the write off of €18 million fully provided non-performing loans during 2022.

Stock of property

During the year ended 31 December 2022, the Group on-boarded €3,1 million (31 December 2021: €1,6 million) of properties through foreclosures and debt-for-asset swaps and completed disposals of €3,9 million (31 December 2021: €1,6 million). Disposals in 2022 were made at a net gain of €0,2 million (31 December 2021: €0,2 million). Impairment charge on stock of property amounted to €0,2 million for 2022 (2021: €0,6 million).

Deposits

Client deposits amounted to €487 million as at 31 December 2022, an increase of 11% compared to €438 million at 31 December 2021. Customer deposits accounted for 89% of total assets at 31 December 2022 (31 December 2021: 85%) and net loans to deposit ratio stood at 44% at 31 December 2022 (31 December 2021: 49%).

Loan capital

At 31 December 2022, the Group's loan capital (including accrued interest) amounted to €11,3 million (31 December 2021: €11,3 million) and relates to an Unsecured Perpetual Subordinated Note of €5 million (31 December 2021: €5 million) which qualifies for classification as Additional Tier 1 Capital, and Subordinated Tier 2 Bonds of €6,3 million (31 December 2021: €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 primary objective of the Bank's capital management is to ensure compliance with applicable regulatory requirements as well as optimise capital usage ensuring the maintenance of healthy capital adequacy ratios which can support the Group's business and safeguard the interests of its shareholders and all other stakeholders.

Total equity excluding non-controlling interests amounted to €38,2 million as at 31 December 2022 compared to €38,7 million as at 31 December 2021, the decrease relating mainly to valuation adjustments on debt securities classified at FVTOCI.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Capital base (continued)

The Group's CET1 ratio on a transitional basis as at 31 December 2022 stood at 16,04% (31 December 2021: 16,29%). The CET1 ratio was positively affected during 2022 by the decrease in risk weighted assets (RWA), and negatively affected by the phasing in of IFRS 9 transitional arrangements on 1 January. The CET1 ratio on a fully loaded basis as at 31 December 2022 amounted to 15,75% (31 December 2021: 15,45%).

The Group's Overall Capital Ratio as at 31 December 2022 on a transitional basis stood at 20,72% (31 December 2021: 20,78%) and on a fully loaded basis stood at 20,45% (31 December 2021: 20,03%).

All capital ratios of the Group on a transitional and fully loaded basis are above the regulatory minimum requirements.

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

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 2022 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 2023-2025 approved by the Board in February 2023 (the "Plan"). 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 assess how possible changes in some of the underlying assumptions used in the projections could impact the projected financial performance of the Group and its capital adequacy and liquidity. The Board of Directors and Management are working towards materialising the Group's approved Business Plan.

The Directors and Management, have paid particular attention to the challenges and uncertainties stemming from the main macroeconomic developments (as set out in Note 44 "Operating Environment") that could cause uncertainties regarding the application of this principle relating to elevated inflation combined with the rising interest rate environment, the effects in the global economy from the failures of the banks in the United States and the absorption of Credit Suisse operations by UBS as well as the negative impact from the war in Ukraine. Management closely monitors the developments and the impact they may have on the Group's operations and financial performance.

MANAGEMENT REPORT (continued)

GOING CONCERN (continued)

The Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group and the Bank to continue to operate as a going concern for a period of at least 12 months from the date of approval of these Consolidated and Separate Financial Statements.

The going concern assessment is presented in note 2.1 to the Financial Statements.

DIVIDEND

The Management Body does not recommend the payment of dividend.

RISK MANAGEMENT

As a financial organisation the Group is exposed to risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Group monitors and manages these risks through 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 2022.

SHAREHOLDERS

The shareholding structure as at 31 December 2022 is presented in note 41 to the Financial Statements.

CAPITAL MANAGEMENT

At 31 December 2022 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (31 December 2021: 9,93%) and an overall capital adequacy ratio of 15,70% (31 December 2021: 15,70%).

The Group's CET 1 and overall capital adequacy ratio as at 31 December 2022 stood at 16,04% and 20,72% respectively, being above the minimum regulatory requirements. The capital ratios were in compliance with minimum regulatory requirements throughout 2022.

Following the 2021 SREP performed by CBC and based on the final SREP decision received in February 2023, Pillar 2 requirement has been revised to 5,50% from 5,20%, resulting to a minimum CET 1 requirement of 10,094% and an overall capital ratio requirement of 16,00% effective as from 8 February 2023.

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.

MANAGEMENT REPORT (continued)

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 2023, 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. The NPE Plan for 2022 was successfully implemented during 2022. The target set for 2022, was the decrease of NPEs by 25% from €95,8 million at the end of 2021 to €71,4 million by the end of 2022. During 2022 through the successful implementation of internal actions defined in the NPE Plan for 2022, the 2022 NPE target was exceeded, with NPEs decreasing by 32% from €95,8 million to €65,3 million. Furthermore, the NPE ratio on a gross basis decreased from 36,4% at the end of 2021 to 26,2% at the end of 2022, while on a net basis the NPE ratio decreased from 23,8% at the end of 2021 to 16,0% at the end of 2022. The NPE Plan for 2023 sets a target for decrease of NPEs by 28%, from €65,3 million at the end of 2022 to €46,7 million at the end of 2023 entirely through internal actions. The implementation of these actions is carefully monitored and recovery strategies and action plans are frequently reviewed based on developments and results in order to promptly introduce corrective actions. At the same time Management is contemplating non-organic solutions for reduction of NPEs.

The prolonged Russian/Ukraine crisis, has changed the economic prospects, reflecting potential slowdown in economic growth impacted by the escalating inflationary pressures and rising interest rate outlook. As a result of the changing economic outlook, the Group will benefit significantly from the interest rate increases, setting Net Interest Income ("NII") to growth trajectory and outweighing potential pressures on total operating costs and cost of risk.

From July 2022 until May 2023 ECB raised the three key ECB interest rates by 3,75 percentage points. Due to the structure of the Group's balance sheet higher interest rates facilitate growth in interest income. As at 31 December 2022 cash balances with CBC amounted to €220 million, well positioned to benefit from further interest rate increases. The increase of reference rates will also benefit the interest income from loans, since approximately 93% of the Group's performing loan book is priced on Euribor or other floating rates. Although the higher interest rates will have a positive impact on the Group's revenues going forward, the Group's financial performance could be impacted by increased cost of risk related to the higher costs for client of servicing their loans along with a weakening economy. The Group engages actively with its customers to identify and assess their needs and provide the required support and solutions.

The Group continues to manage its deposit base prudently in order to maintain healthy liquidity ratios and at the same time manage the cost of funding taking into advantage the confidence of the market in the sector. During the last years the group has experienced a significant reduction in the cost of deposits with the introduction of liquidity fees for certain groups of clients. Following the successive increases of interest rates by ECB in the second half of 2022, the Bank abolished liquidity fees on deposits from 1 December 2022. Management monitors closely its deposit base along with market developments regarding cost of deposits.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

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

Mr. Christodoulos Patsalides, Chairman and Directors Avgoustinos Papathomas, Christodoulos Plastiras, Loucas Marangos and Stella Avraam served on the Board throughout the year 2022. Ms. Stalo Koumidou, Messrs. Andreas Hadjikyrou, Konstantinos Mitropoulos, Dimitrios P. Sioufas and Demetris Sparsis were appointed members of the Board on 2 February 2022, 3 March 2022, 29 April 2022, 29 June 2022 and 14 November 2022 respectively.

Mr. George Loizou resigned on 23 July 2022 and Mr. George Pavlides resigned on 26 July 2022.

The members of the Board of Directors express their thanks to Messrs. George Loizou and George Pavlides for their valuable contribution.

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2023, one third of the Directors serving (those with longest service since their last appointment) will be due for retirement and being eligible, will offer themselves for re-election.

CORPORATE GOVERNANCE REPORT

1. Introduction

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

1. Introduction (continued)

Another key objective of the Corporate Governance Arrangements is to ensure compliance with the applicable legal and regulatory requirements. The Group was in 2022 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 Credit Committee ('the CC'). Details of these Committees are provided in the sections to follow. The Chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meeting of the Board and minutes of these meetings are tabled to the Board as soon as possible for noting and/ or discussion, as necessary. The Committees terms of reference are available on the Bank's website www.cdb.com.cy.

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 objective and the risk appetite to support the strategy implementation.

MANAGEMENT REPORT (continued)

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 risk to be identified, assessed and managed. The Board has the primary responsibility for setting the strategy of the Group and ensuring that the necessary human and financial resources are in place to meet the strategic and operational objectives. It has an overall responsibility for the Group and approves and oversees the implementation of the Group's strategic objectives, risk strategy and internal governance.

The Board has the overall responsibility for:

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

MANAGEMENT REPORT (continued)

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, including ensuring the agenda cover 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.

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body

As at 31 December 2022 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.

Ms. Stalo Koumidou joined the Board on 2 February 2022, Mr. Andreas Hadjikyrou on 3 March 2022, Mr. Konstantinos Mitropoulos on 29 April 2022, Mr. Dimitrios Sioufas on 29 June 2022 and Mr. Demetris Sparsis on 14 November 2022.

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 and we are confident that the recent changes to the composition of the Board will be supportive of this objective.

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 2022 the Board held 8 meetings. Details on the number of meetings of the Board and its committees and attendance of individual Directors are set out below.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.1. Meetings of the Management Body (continued)

		Committees				
	MB	Risk	Audit	NR	Joint Risk&Audit	Credit
Total Meetings - 2022	**8**	**7**	**5**	**8**	**2**	**11**
Christodoulos Patsalides	7	-	-	8	-	-
Avgoustinos Papathomas	8	-	5	8	2	9
Christodoulos Plastiras	6	7	5	-	2	6
Stalo Koumidou	8	5	-	3	2	7
Andreas Hadjikyrou	7	4	-	4	1	4
Konstantinos Mitropoulos	6	2	-	3	-	-
Dimitrios Sioufas	4	-	1	-	-	2
Demetris Sparsis	2	-	-	-	-	-
Loucas Marangos	8	-	-	-	-	-
Stella Avraam	8	-	-	-	-	-

New appointments

Ms. Stalo Koumidou appointed on 2 February 2022.

Mr. Andreas Hadjikyrou appointed on 3 March 2022.

Mr. Konstantinos Mitropoulos appointed on 29 April 2022.

Mr. Dimitrios Sioufas appointed on 29 June 2022.

Mr. Demetris Sparsis appointed on 14 November 2022.

Resignations

Mr. George Loizou resigned on 23 July 2022.

Mr. George Pavlides resigned on 26 July 2022.

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 2022.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.1. Meetings of the Management Body (continued)

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 (4 Members)	Nomination and Remunerations Committee (4 Members)	Credit Committee (4 Members)
Audit Committee	N/A	1	1	2
Risk Committee	1	N/A	2	2
Nomination and Remunerations Committee	1	2	N/A	2
Credit Committee	2	2	2	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.

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 Company.

None of the directors had, during the year or at year end, a material interest, directly or indirectly in any contract of significance with the Group (see note 42 to the Financial Statements).

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

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 does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company and is 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 2022, 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 2022 the Board considered the principles relating to independence contained in the CBC Suitability Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 4 of this report.

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

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.1. Appointments to the Board

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

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

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

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

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

2.3.2. Directors inductions and ongoing development

Induction programs 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. Following appointment, each Director receives a relevant package and undergoes an induction program.

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.2. Directors inductions and ongoing development (continued)

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

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.

During 2022, reading material and training sessions were provided to Directors, amongst other, on main EU Directives applicable to Bank's (such as the CRR and BRRD), the Banking Law, Outsourcing, trends in the Banking Sector, Board Practices and Climate and Environmental Risks.

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 and identify opportunities for improvement and maximize strengths. The aim of the assessments is to determine whether the Board and its committees as a whole is effective in discharging its responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

The Board is subject to external evaluation every three years. The last external review was conducted by PWC in 2021. The Board also conducted an internal evaluation in December 2022. 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.3. Board Performance Evaluation (continued)

The self-assessment concluded that the Board remains effective in discharging its responsibilities and the effectiveness of Board Committees was assessed adequate. The Chairman's performance evaluation concluded that Mr. Christodoulos Patsalides 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.

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 2022.

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 after the relevant proposal of the Credit Committee. 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;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

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

The overall internal control systems of the Group include:

- A transparent organisational structure with clear reporting lines to Senior Management and the Board;
- Three lines of defence model for the management of risks across the Group;
- Board and Executive Committees with clear responsibilities;
- Policies and procedures;
- 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 from the Group's Internal Auditor, the Chief Compliance Officer and Chief Risk Officer, internal and external audit reports, as well as regulatory reports.

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

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

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

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

3.1. Group code of conduct and whistleblowing policy

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

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

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

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

4. Members of the Management Body

4.1. Non-Executive Directors

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Avgoustinos Papathomas (Senior Independent Member)
Born in 1963. He holds a BSc and BEng in Engineering Manufacture and Management from the University of Manchester Institute of Science & Technology. He is a fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Certified Public Accountants of Cyprus and a licensed Insolvency Practitioner. Avgoustinos is a partner of FRP Advisory (Cyprus) and APP Audit. Avgoustinos has served as a Director on various organizations and is currently the Chairman of the Famagusta Chamber of Commerce and Industry.

Term of Office: Appointed to the Board of Directors on 7 May 2019
Independent: Yes
Appointed as the member of the MB responsible of the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2018 and as Senior Independent Member on 8 May 2019 and 2 August 2022 respectively
Member of a Board Committee:
- Chairman of the Audit Committee
- Nomination and Remunerations Committee
- Credit Committee

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

Term of Office: Appointed to the Board of Directors on 7 May 2019
Independent: Yes
Member of a Board Committee:
- Audit Committee
- Risk Committee (appointed as Chairman of the Risk Committee on 1 March 2022)

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Stalo Koumidou
Born in 1981. Holds a BSc (Hons) Financial and Business Economics from Royal Holloway University of London and a MSc Finance and Economics from London School of Economics and Political Science. 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. Her recent professional experience includes the position of Manager Investment Banking with The Cyprus Investment and Securities Corporation Ltd of Bank of Cyprus Group. She is currently an independent financial advisor and 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
- Credit Committee (appointed as Chairperson of the Credit Committee on 2 August 2022)

Andreas Hadjikyrou
Born in 1977. He is the founder of 7Q Investment Group a leading boutique asset manager and institutional investor. Currently he is the Chief Investment Officer Director 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. Mr. Hadjikyrou 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 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
- Credit Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Konstantinos Mitropoulos
Born in 1955. 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 Institute of Economic and Industrial Studies (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. Mr. Mitropoulos 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. Mr. Mitropoulos 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:
- Nomination and Remunerations Committee - Chairman
- Risk Committee

Dimitrios Sioufas
Born in 1979. Mr Sioufas 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 Shanghai and Singapore offices. The extensive professional expertise of Mr. Sioufas 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, Bachelor of Laws from the National and Kapodistrian University of Athens and University of Greenwich; 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
- Credit Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Demetris Sparsis
Born in 1964. Mr Sparsis 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. Mr Sparsis is also a member of the Board of Director of NAGA Markets Europe Ltd. He holds a 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

4.2. Executive Directors

Loucas Marangos (Executive Director – CEO from 21 July 2021)
Born in 1971. He was appointed as CEO and Member of the Board of Directors of the Bank in July 2021. He has a strong financial markets experience and in depth knowledge of local and overseas financial markets. Prior to his appointment at the Bank, from 2009 to 2020 he was the CEO of TFI Markets Ltd. He has also worked in the Corporate Banking Division of Bank of Cyprus and from 2000 to 2009 as Associate Director Risk Manager of TFI Public Co. Ltd. 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

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

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees

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

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

The Chairman of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes 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 2022, the NRC comprised four (4) Non-Executive Directors, three (3) of whom were independent. Members of the Committee are also members of the Risk, Audit and Credit Committees.

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

The Committee held 8 meetings in 2022. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

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

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

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board);
- Directors' development;
- Chairperson development (under the overall responsibility and supervision of the SID);
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual Directors, and
- Succession planning for Directors and senior management;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

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

- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results;
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies;
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues;
- To consider the remuneration arrangements of the Executive Directors of the Group, other identified staff and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices and the CBC Governance Directive.

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

5.2. Audit committee (AC)

As at 31 December 2022, the AC comprised of three (3) independent Directors. Members of the Committee are also Members of the Risk, Credit and Nominations and Remuneration 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 5 meetings in 2022. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

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

The role of the Committee, inter alia, is:

- 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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.2. Audit committee (AC) (continued)

- To make recommendations to the Board on such matters.

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

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

5.2.1. Internal audit independence

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

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

5.3. Risk committee (RC)

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

The RC on 31 December 2022 comprised four (4) Non-Executive Directors, three (3) of whom were independent. Members of the Committee are also Members of the Audit, the Nomination and Remunerations Committee, and Credit Committees.

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

The Committee held 7 meetings in 2022. 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:

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.3. Risk committee (RC) (continued)

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

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

Information relating to Group Risk Management is set out in note 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. Credit Committee (CC)

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

The CC on 31 December 2022 comprised four (4) Non-Executive Directors, of whom three (3) were independent. Members of the Committee are also Members of the Audit, Risk and Nomination and Remuneration Committees. Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 11 meetings in 2022. 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, individually significant exposures for both new lending and restructuring within approval authorities reserved by the Board and to ensure that the risk profile of such exposures is in line with the risk appetite for credit risk, risk strategy and credit risk policies.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.4. Credit Committee (CC) (continued)

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 takes into account 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.

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.

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, 18 May 2023

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We invest in people Platinum

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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 42 to 168 and comprise the consolidated and separate statement of financial position as at 31 December 2022, 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 a summary of significant accounting policies.

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 2022, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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.

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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

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 €216 million as at 31 December 2022 (2021: €214 million), net of accumulated impairment losses of €33 million (2021: €49 million). 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 assessing significant increase in credit risk (SICR), credit-impairment status (default) and classification of credit facilities into various stages, 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 ("ECL") 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.	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 expected credit losses ("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 ECL, including controls around methodologies applied and judgements and estimates employed 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 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.

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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)	
The most significant management judgements and estimates relate to: • 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, • 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. Refer to notes 3.12, 4.2, 18 and 38.1 of the consolidated and separate financial statements for the significant accounting policies of the Group and the Bank, the critical accounting estimates and judgements used in the estimation of the ECL on loans and advances to customers and further details in relation to credit risk management.	• 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. • 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 financial statements relating to this matter against the requirements 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

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	
During 2022, the Group reported a loss for the year after tax of €36 thousand (2021: €1,3 million) in the consolidated income statement. However, the overall capital adequacy ratio as at 31 December 2022 is above the minimum total capital requirements set by the Central Bank of Cyprus. The Board of Directors of the Bank concluded that the adoption of the going concern basis in preparing these financial statements is appropriate 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. 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 recent Covid-19 pandemic and the geopolitical developments in Eastern Europe after the commencement of conflict between Russia and Ukraine. 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.	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. • 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 2023 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.

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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	
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 examined the methodology used to calculate regulatory capital ratios and reperform calculations of the capital adequacy ratios of the Group as at 31 December 2022. 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.

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 Corporate Governance Report, which is included as a specific section in the Management Report, but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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 International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated 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.

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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

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.
- 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.

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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

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

Appointment of the 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 2022 in the Annual General Meeting of the shareholders of the Bank on 26 July 2022. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of two years.

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 18 May 2023 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-Audit Services

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

Other legal requirements

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

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

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Other matters

This report, including the opinion, has been prepared for and only for the Group'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.

....

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

Deloitte Limited
Certified Public Accountants and Registered Auditors

Limassol, 18 May 2023

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Note	2022 €'000	2021 €'000
Turnover		14.968	13.730
Interest income calculated using the effective interest method	5	10.940	9.898
Interest expense calculated using the effective interest method	6	(1.055)	(1.107)
Net interest income		9.885	8.791
Fee and commission income	7	3.589	3.067
Fee and commission expense	8	(600)	(408)
Net foreign exchange gains	9	39	352
Other income	10	400	696
Total net income		**13.313**	**12.498**
Staff costs	11	(8.044)	(7.695)
Other operating expenses	12	(3.508)	(3.206)
Special levy on deposits and other levies/contributions	12	(818)	(821)
Depreciation	13	(833)	(877)
Profit/(loss) before provisions for impairment		**110**	**(101)**
Provisions for impairment	14	(164)	(1.120)
Loss after provisions for impairment		**(54)**	**(1.221)**
Share of loss from associates	22	(1)	(62)
Loss before tax		**(55)**	**(1.283)**
Tax	15	19	(27)
Loss for the year after tax		**(36)**	**(1.310)**
Loss for the year attributable to:			
Owners of the Bank		(39)	(1.330)
Non-controlling interests		3	20
Loss for the year		**(36)**	**(1.310)**
Basic and fully diluted loss per share (cent)	16	(0,09)	(3,07)

The notes on pages 54 to 168 form an integral part of the financial statements.

INCOME STATEMENT

For the year ended 31 December 2022

	Note	2022 €'000	2021 €'000
Turnover		14.252	13.521
Interest income calculated using the effective interest method	5	11.211	10.209
Interest expense calculated using the effective interest method	6	(1.051)	(1.101)
Net interest income		10.160	9.108
Fee and commission income	7	2.985	2.769
Fee and commission expense	8	(389)	(293)
Net foreign exchange gains	9	31	328
Other income	10	25	215
Total net income		**12.812**	**12.127**
Staff costs	11	(7.754)	(7.411)
Other operating expenses	12	(3.343)	(3.155)
Special levy on deposits and other levies/contributions	12	(818)	(821)
Depreciation	13	(832)	(867)
Profit/(loss) before provisions for impairment		**65**	**(127)**
Provisions for impairment	14	(88)	(1.275)
Loss before tax		**(23)**	**(1.402)**
Tax	15	19	(4)
Loss for the year after tax		**(4)**	**(1.406)**
Basic and fully diluted loss per share (cent)	16	(0,01)	(3,25)

The notes on pages 54 to 168 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 €'000	2021 €'000
Loss for the year		**(36)**	**(1.310)**
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 losses on investments in debt instruments measured at fair value through OCI (FVOCI)	20	(248)	(47)
Total OCI that may be reclassified in the consolidated income statement in subsequent periods		**(248)**	**(47)**
OCI items not to be reclassified in the consolidated income statement in subsequent periods			
Property revaluation reserve			
Deferred tax on revaluation of premises	29	26	98
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		**26**	**98**
Other comprehensive (loss)/income for the year net of taxation		**(222)**	**51**
Total comprehensive loss for the year		**(258)**	**(1.259)**
Attributable to:			
Owners of the Bank		(261)	(1.279)
Non-controlling interests		3	20
Total comprehensive loss for the year		**(258)**	**(1.259)**

The notes on pages 54 to 168 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 €'000	2021 €'000
Loss for the year		**(4)**	**(1.406)**
Other comprehensive income (OCI)			
Items that are or may be reclassified in the income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)	20	(248)	(47)
Total OCI that may be reclassified in the income statement in subsequent periods		**(248)**	**(47)**
OCI items not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net (losses)/gains from revaluation of subsidiaries	21	(22)	114
		(22)	**114**
Property revaluation reserve			
Deferred tax on revaluation of premises	29	26	98
		26	**98**
Total OCI not to be reclassified in the income statement in subsequent periods		**4**	**212**
Other comprehensive (loss)/income for the year net of taxation		**(244)**	**165**
Total comprehensive loss for the year		**(248)**	**(1.241)**

The notes on pages 54 to 168 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Note	2022 €'000	2021 €'000
ASSETS			
Cash and balances with central banks	17	220.364	166.985
Balances with other banks	17	2.250	3.266
Investments in debt securities	20	90.229	111.679
Loans and advances	18	216.229	214.470
Investments in equities	19	142	131
Investments in associates	22	670	672
Stock of property	25	8.633	9.702
Receivables and other assets	26	1.941	1.595
Premises and equipment	23	6.386	6.558
Intangible assets	24	671	806
Total assets		**547.515**	**515.864**
LIABILITIES			
Bank borrowings	27	2.328	2.749
Client deposits	28	486.841	437.808
Deferred taxation	29	301	346
Accruals and other liabilities	30	8.355	24.814
Loan capital	32	11.261	11.261
Total liabilities		509.086	476.978
EQUITY			
Share capital	33	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	14.653
Reserves		(1.126)	(673)
Equity attributable to owners of the parent company		38.230	38.683
Non-controlling interests		199	203
Total equity		38.429	38.886
Total liabilities and equity		**547.515**	**515.864**
Contingent liabilities and commitments	34	50.937	54.714

These Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 18 May 2023.

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 54 to 168 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Note	2022 €'000	2021 €'000
ASSETS			
Cash and balances with central banks	17	220.364	166.985
Balances with other banks	17	2.115	3.193
Investments in debt securities	20	90.229	111.679
Loans and advances	18	216.229	214.470
Investments and exposures in subsidiary companies	21	5.700	9.363
Stock of property	25	3.971	1.331
Receivables and other assets	26	972	721
Premises and equipment	23	6.384	6.555
Intangible assets	24	670	806
Total assets		**546.634**	**515.103**
LIABILITIES			
Bank borrowings	27	2.328	2.749
Client deposits	28	486.841	437.808
Deferred taxation	29	301	346
Accruals and other liabilities	30	7.638	24.426
Loan capital	32	11.261	11.261
Total liabilities		508.369	476.590
EQUITY			
Share capital	33	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	14.653
Reserves		(1.091)	(843)
Total equity		38.265	38.513
Total liabilities and equity		**546.634**	**515.103**
Contingent liabilities and commitments	34	50.937	54.714

These Financial Statements have been approved and authorised for issue by the Management Body on 18 May 2023.

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 54 to 168 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

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 54 to 168 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

2021	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 2021	8.655	16.048	19.435	1.818	(5.871)	40.085	182	40.267
Correction in opening balance of subsidiaries reserves	-	-	-	(2)	54	52	1	53
Restated balance 1 January 2021	8.655	16.048	19.435	1.816	(5.817)	40.137	183	40.320
Total comprehensive (loss)/income after taxation								
(Loss)/profit for the year	-	-	-	-	(1.330)	(1.330)	20	(1.310)
Other comprehensive income	-	-	-	51	-	51	-	51
Total comprehensive (loss)/income	-	-	-	51	(1.330)	(1.279)	20	(1.259)
Transfers between reserves								
Excess depreciation on revaluation surplus	-	-	-	(4)	4	-	-	-
Total transfers between reserves	-	-	-	(4)	4	-	-	-
Transactions with owners of the Bank - contributions and distributions								
Decrease in capital reduction reserve fund against accumulated losses	-	-	(4.782)	-	4.782	-	-	-
Contribution to defence fund and General Health System on deemed dividend distribution of 2019 dividends	-	-	-	-	(175)	(175)	-	(175)
Total contributions and distributions	-	-	(4.782)	-	4.607	(175)	-	(175)
Balance 31 December 2021	**8.655**	**16.048**	**14.653**	**1.863**	**(2.536)**	**38.683**	**203**	**38.886**

The notes on pages 54 to 168 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

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)
Transfers between reserves						
Excess depreciation on revaluation surplus	-	-	-	(12)	12	-
Total transfers between reserves	-	-	-	(12)	12	-
Balance 31 December 2022	**8.655**	**16.048**	**14.653**	**478**	**(1.569)**	**38.265**

2021	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2021	8.655	16.048	19.435	573	(4.782)	39.929
Total comprehensive loss after taxation						
Loss for the year	-	-	-	-	(1.406)	(1.406)
Other comprehensive income	-	-	-	165	-	165
Total comprehensive loss	-	-	-	165	(1.406)	(1.241)
Excess depreciation on revaluation surplus	-	-	-	(4)	4	-
Transactions with owners of the Bank - contributions and distributions						
Decrease in capital reduction reserve fund against accumulated losses	-	-	(4.782)	-	4.782	-
Contribution to defence fund and General Health System on deemed dividend distribution of 2019 dividends	-	-	-	-	(175)	(175)
Total contributions and distributions	-	-	(4.782)	-	4.607	(175)
Balance 31 December 2021	**8.655**	**16.048**	**14.653**	**734**	**(1.577)**	**38.513**

The notes on pages 54 to 168 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

Share capital

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

Share premium

Share premium is not available for distribution.

Capital reduction reserve fund

At the AGM of the Bank's shareholders dated 5 July 2021, a resolution was approved for the reduction of the capital reduction reserve fund from €19.435 thousand to €14.653 thousand by writing off the amount of the decrease of €4.782 thousand against the accumulated losses of the Bank.

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 54 to 168 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 €'000	2021 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group loss for the year		(36)	(1.310)
Adjustments for:			
Net interest from debt securities		(491)	(96)
Premium/discount amortisation on debt securities		353	598
Interest on loan capital	6	452	11
(Profit)/loss on disposal of premises and equipment	13	(5)	1
Gain on revaluation of investments at FVTPL	10	(11)	-
Depreciation of premises and equipment	13	456	521
Depreciation of intangible assets	13	377	356
Net foreign exchange gains		(39)	(144)
Provisions for impairment	14	164	1.120
Interest expense on lease liability	6	30	25
Profit from disposal of subsidiary	10	(132)	(60)
Negative goodwill on acquisition of associate	10	-	(283)
Share of loss from associate		1	62
Tax	15	(19)	27
		1.100	828
Change in:			
Obligatory balances with Central Bank		(217)	538
Loans and advances		(1.619)	11.575
Client deposits		49.033	(86.473)
Bank borrowings		(421)	(422)
Working capital and other items of the statement of financial position		(19.157)	22.203
Net cash from/(to) operating activities before tax		28.719	(51.751)
Taxes and special contributions paid		-	(200)
Net cash from/(to) operating activities		28.719	(51.951)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	23	(158)	(150)
Proceeds from disposal of premises and equipment		11	-
Acquisition of intangible assets	24	(242)	(291)
Acquisition of equity investments	19	-	(131)
Acquisition of debt securities	20	(229.538)	(193.428)
Proceeds from disposal/redemption of debt securities	20	250.369	163.367
Acquisition of associate	22	-	(451)
Proceeds from disposal of subsidiaries		3.091	950
Net interest from debt securities		491	96
Net cash from/(used in) investing activities		24.024	(30.038)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of Tier 2 Subordinated Bonds		-	6.250
Principal element of lease payments		(184)	(231)
Interest paid on loan capital		(452)	-
Net cash (to)/from financing activities		(636)	6.019
Net increase/(decrease) in cash and cash equivalents		52.107	(75.970)
Effect of exchange rate fluctuations on cash and cash equivalents		39	112
Cash and cash equivalents at the beginning of the year		165.909	241.767
Cash and cash equivalents at the end of the year	37	218.055	165.909
Non-cash investing activities			
Reduction of capital reduction reserve fund utilised to write off accumulated losses		-	4.782
		-	4.782

The notes on pages 54 to 168 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 €'000	2021 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(4)	(1.406)
Adjustments for:			
Net interest from debt securities		(491)	(96)
Premium/discount amortisation on debt securities		353	598
Interest expense on loan capital	6	452	11
(Profit)/loss on disposal of premises and equipment	13	(5)	1
Depreciation of premises and equipment	13	455	519
Depreciation of intangible assets	13	377	348
Net foreign exchange gains		(31)	(121)
Provisions from impairment	14	88	1.275
Loss/(profit) from disposal of subsidiary	10	29	(60)
Interest expense on lease liability	6	30	25
Tax	15	(19)	4
		1.234	1.098
Change in:			
Obligatory balances with Central Bank		(217)	538
Loans and advances		(1.619)	11.575
Client deposits		49.033	(86.473)
Bank borrowings		(421)	(422)
Working capital and other items of the statement of financial position		(19.343)	21.341
Net cash from/(to) operating activities before tax		28.667	(52.343)
Taxes and special contributions paid		-	(177)
Net cash from/(to) operating activities		28.667	(52.520)
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	23	(158)	(151)
Proceeds from disposal of premises and equipment		11	-
Acquisition of intangible assets	24	(241)	(292)
Acquisition of debt securities	20	(229.538)	(193.428)
Proceeds from disposal/redemption of debt securities	20	250.369	163.367
Proceeds from disposal of subsidiaries		3.091	950
Net interest from debt securities		491	96
Net cash from/(to) investing activities		24.025	(29.458)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of Tier 2 Subordinated Bonds		-	6.250
Principal element of lease payments		(184)	(231)
Interest paid on loan capital		(452)	-
Net cash (to)/from financing activities		(636)	6.019
Net increase/(decrease) in cash and cash equivalents		52.056	(75.959)
Effect of exchange rate fluctuations on cash and cash equivalents		28	112
Cash and cash equivalents at the beginning of the year		165.836	241.683
Cash and cash equivalents at the end of the year	37	217.920	165.836
Non-cash investing activities			
Reduction of capital reduction reserve fund utilised to write off accumulated losses		-	4.782
		-	4.782

The notes on pages 54 to 168 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 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 2023-2025 approved by the Board in February 2023 (the "Plan"). 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 assess how possible changes in some of the underlying assumptions used in the projections (drop in real estate prices, different risk weights, outflows of deposits, lower margins on loans), could impact the projected financial performance of the Group and its capital adequacy and liquidity. The Board of Directors and Management are working towards materialising the Group's approved Business Plan.

The Directors and Management, have paid particular attention to the challenges and uncertainties stemming from the main macroeconomic developments (as set out in Note 44 "Operating Environment") that could cause uncertainties regarding the application of this principle relating to elevated inflation combined with the rising interest rate environment, the effects in the global economy from the failures of the banks in the United States and the absorption of Credit Suisse operations by UBS as well as the negative impact from the war in Ukraine. Management closely monitors the developments and the impact they may have on the Group's operations and financial performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.1 Funding and liquidity

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

- The Group enjoys a strong liquidity position and is compliant with all regulatory liquidity ratios. The Liquidity Coverage Ratio (LCR) stood at 304% on 31 December 2022, well above the minimum requirement of 100%.
- The Group holds significant liquidity buffers that can be monetised in a period of stress.
- 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.

2.1.2 Capital

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

The Group's CET 1 ratio as at 31 December 2022 stood at 16,04% (2021: 16,29%), 611bps above the minimum regulatory CET 1 ratio. The overall Capital Ratio (OCR) as at 31 December 2022 stood at 20,72% (2021: 20,78%), 502 bps above the minimum regulatory OCR. 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 2022 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:
  - Following the 2021 SREP performed by CBC and based on the final SREP 2021 decision received on 8 February 2023, Pillar 2 requirement has been 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 16,00% (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 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% must be observed from 30 November 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.2 Capital (continued)

- 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 interim targets). The Board of Directors taking into consideration all available information, together with the Business Plan approved in February 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.

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 2022, the Group deployed all available tools to manage NPEs, namely restructurings, debt-for-asset swaps, foreclosures, legal measures, receiverships and examinerships.

The target set for 2022, was the decrease of NPEs by 25% from €95,8 million at the end of 2021 to €71,4 million by the end of 2022. During 2022 through the successful implementation of internal actions defined in the NPE Plan for 2022, the 2022 NPE target was exceeded, with NPEs decreasing by 32% from €95,8 million to €65,3 million. Furthermore, the NPE ratio on a gross basis decreased from 36,4% at the end of 2021 to 26,2% at the end of 2022, while on a net basis the NPE ratio decreased from 23,8% at the end of 2021 to 16,0% at the end of 2022.

In its NPE Plan for 2023-2025 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 minimise resolution period. The implementation of these actions is carefully monitored, and recovery strategies and action plans are frequently reviewed based on developments and results in order to promptly introduce corrective actions. At the same time Management is contemplating non-organic solutions for reduction of NPEs.

The Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group and the Bank to continue to operate as a going concern for a period of at least 12 months from the date of approval of these Consolidated and Separate Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

2.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the year ended 31 December 2022.

2.3 Basis of measurement

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

2.4 New and amended standards and Interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts - Cost of Fulfilling a Contract (amendments)

The amendments specified that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments did not have a material impact on the Group's consolidated financial statements.

IFRS 3 "Business Combinations" (amendments)

Reference to the Conceptual Framework issued which updates references in IFRS 3 to the revised 2018 Conceptual Framework. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that this update does not change which assets and liabilities qualify for recognition in a business combination or create new day two gains or losses. The amendments did not have a material impact on the Group's consolidated financial statements.

IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use (amendments)

The amendments to the standard prohibit an entity from deducting from the cost of an item of property,plant and equipment any proceeds from selling items produced while bringing that asset to its intended use. Instead, such proceeds are recognized in profit or loss, together with the cost of producing those items. The amendments did not have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020 Cycle

Annual Improvements to IFRS Standards 2018–2020 Cycle which resulted from the IASB's annual improvement project for the 2018-2020 cycles, make amendments to the following standards:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

2.4 New and amended standards and Interpretations (continued)

- IFRS 1, First-time Adoption of International Financial Reporting Standards: amendments simplify the application of IFRS 1 by a subsidiary that becomes a first-time adopter of IFRS Accounting Standards after its parent. If such a subsidiary applies IFRS 1.D16(a), it may elect to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Accounting Standards.
- IFRS 9, Financial Instruments: amendments clarify which fees to include in the '10%' test to determine whether a financial liability has been substantially modified (i.e. the derecognition analysis). A borrower includes only fees paid or received between itself and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- IFRS 16, Leases: amendments to Illustrative Examples accompanying IFRS 16, remove the illustration of payments from the lessor for lessee-owned leasehold improvements. As previously drafted, this example was unclear about whether the payments meet the definition of a lease incentive.

The amendments did not have a material impact on the Group's consolidated financial statements.

2.5 Standards and interpretations that are issued but not yet effective

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

IFRS 17 "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 replaces IFRS 4 which has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 is effective for annual periods beginning on or after January 1, 2023. Based on the Group's current business activities IFRS 17 will not have a material impact on the Group's consolidated financial statements.

In June 2020, the IASB issued amendments to IFRS 17 "Insurance Contracts" that address concerns and implementation challenges that were identified after IFRS 17 was published in 2017. The amendments are effective for annual periods beginning on or after January 1, 2023 with early adoption permitted.

In December 2021, the IASB issued amendments to IFRS 17 "Insurance Contracts" that are narrow-scope amendments to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. The amendments (if elected) will be applicable when IFRS 17 is first applied.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

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

2.5.1 Standards and Interpretations issued by the IASB and adopted by the EU (continued)

IAS 12 "Income Taxes"

In May 2021, the IASB issued amendments to IAS 12 "Income Taxes". These amendments change 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. The amendments will be effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The Group does not expect these amendments to have a material impact on its consolidated financial statements.

IAS 1 "Presentation of Financial Statements"

In February 2021, the IASB issued amendments to IAS 1 and "IFRS Practice Statement 2" that are intended to provide guidance on deciding which accounting policies to disclose in the financial statements. Accordingly, an entity is now required to disclose its material accounting policies instead of its significant accounting policies. This will be effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The amendments will not have an impact on the Group's results but will lead to changes to the Group's disclosure of its accounting policies.

IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have a material impact on its consolidated financial statements.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

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

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

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". They 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. They 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 expectedto be effective for annual periods beginning on or after January 1, 2024 with early adoption permitted. They will not have a material impact on the Group's consolidated financial statements.

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 circumstance. 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 expected to be effective for annual periods beginning on or after January 1, 2024 with early adoption permitted. They will not have a material impact on the Group's consolidated financial statements.

2.6 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 investments valued using quoted prices in active markets.

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

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

2.7 Functional and presentation currency

The financial statements of the Group and the Bank are for the year ended 31 December 2022 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus.

2.8 Use of estimates and judgments

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION (continued)

2.8 Use of estimates and judgments (continued)

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

3.2 Foreign currency

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Interest income and interest expense (continued)

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

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

3.5 Fee and commission income

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

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

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

3.6 Dividend

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

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

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

3.8 Retirement benefits to staff

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% and 6% (2021: 9% and 6%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii. Measurement categories (continued)

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

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

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

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

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

Equity Instruments designated at FVOCI

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Significant increase in credit risk

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

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

Backstop

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

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

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

Credit-impaired exposures

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

- The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.
- Material exposures as set by the Central Bank of Cyprus, which are more than 90 days past due.
- Performing forborne exposures under probation, after declassification from NPE, extended additional forbearance measures.
- Performing forborne exposures under probation, after declassification from NPE, that present more than 30 days past due within the probation period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Credit-impaired exposures (continued)

For retail exposures 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) is considered as non-performing.

For non-retail exposures the criteria for NPE are applied at a client level which implies that when one credit obligation of the client is classified as NPE, then all exposures of that client is considered NPE.

Days past due counter refers to the number of consecutive days that the arrears of clients/exposures exceed the materiality thresholds. 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:

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

Non-performing non-forborne exposures cease to be considered as NPEs Exposures 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 exposureceases to be an NPE, and is transferred out of stage 3. At such time if the conditions for stage 2classification are met the exposure is transferred to stage 2 otherwise it is classified as stage 1.

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

Debt Securities, loans and advances to banks and balances with central banks are considered defaulted and transferred to stage 3 if the issuers have failed to pay either interest or principal for a period of 90 consecutive days. In addition, a number of other criteria are considered to determine whether there has been a significant deterioration that could result in unlikeliness to pay.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

ECL Key inputs (continued)

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

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

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

Forward-looking inputs

The Group incorporates forward-looking information when measuring ECL. This involves the use of external forecasts to formulate both a 'baseline' view of key economic variables (e.g. GDP Growth, unemployment, house prices) as well as two additional economic scenarios representing a pessimistic and an optimistic macroeconomic outcome to estimate ECLs by linking economic variables to default and loss rates. For PDs this is achieved through regression equations while for LGDs forward-looking information is factored in through the evolution of property indices. The ECLs that result under each scenario are weighted to achieve an unbiased estimate of ECL. The weights applied are 50% (2021: 50%) for the base scenario, 30% (2021: 30%) for the pessimistic scenario and 20% (2021: 20%) for the optimistic scenario.

Macroeconomic variables for each scenario and overlays performed are disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Offsetting

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

3.14 Write-offs

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

If the amount of write-offs is greater than the amount of accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Recoveries, in part or in full, of amounts previously written-off are credited to the consolidated income statement in “Provisions for impairment”.

3.15 Subsidiary companies

Subsidiary companies are investees controlled by the Group. The Group “controls” an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The subsidiary companies are consolidated using the acquisition method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated statement of financial position. The investments in the subsidiary companies are fully eliminated on consolidation in the consolidated financial statements of the Group.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 Company, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 Leased assets

The Group as a lessee

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Leased assets (continued)

The Group as a lessee (continued)

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

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

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

The Group as a lessor

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

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

3.20 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Stock of property (continued)

Stock of property are 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.

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 Derivatives

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

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

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

3.26 Guarantees

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Guarantees (continued)

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

3.27 Impairment of non-financial assets

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

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

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

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

3.28 Discontinued operations

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.29 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.

3.30 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.

3.31 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Classification of financial assets (continued)

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:

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Determination of probability of default (PD)

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

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 military conflict, 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 (2021:50% weight), pessimistic at 30% weight (2021: 30% weight) and optimistic 20% weight (2021: 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 2022

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 2022 and 31 December 2021.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2021

Scenarios			2021	2022	2023	2024	2025
Optimistic	Real GDP change	%	4,41	5,84	3,49	2,34	1,81
	Unemployment	%	6,88	5,57	4,84	4,98	5,09
	Consumer Price Index	%	2,36	2,99	2,01	2,08	2,41
	House Price index change	%	0,55	3,59	6,98	7,13	5,78
Baseline	Real GDP change	%	4,41	4,10	3,40	2,52	1,81
	Unemployment	%	6,88	6,20	5,95	5,86	5,83
	Consumer Price Index	%	2,36	2,32	1,27	1,82	2,30
	House Price index change	%	0,55	2,31	5,26	6,44	5,48
Pessimistic	Real GDP change	%	4,41	-0,74	2,15	3,15	2,52
	Unemployment	%	6,88	7,48	9,71	8,77	7,85
	Consumer Price Index	%	2,36	1,63	-0,42	0,61	1,48
	House Price index change	%	0,55	-1,71	-3,67	-0,40	4,80

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 2022

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 2% and the timing of recovery of collaterals is increased by 0,5 year. Under the optimistic scenario applied haircuts are decreased by 2% 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 ranges between 3-5 years under the baseline scenario as in the previous year. The weighted average liquidation period for all real estate collaterals is 3,6 years (2021: 3,7 years). Different liquidation haircuts are applied depending on the type and location of each collateral with the liquidation haircut including selling expenses ranging from 5%-45% under the baseline scenario and weighted average liquidation haircut of 17% (2021: 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%	(1.044)
Baseline 0%, Optimistic 100%, Pessimistic 0%	(2.829)
Baseline 0%, Optimistic 0%, Pessimistic 100%	3.627
Increase liquidation haircuts by 5%	871
Decrease liquidation haircuts by 5%	(657)
Increase PDs by 20%	550
Decrease PDs by 20%	(550)

Overlays

The COVID-19 related management overlays applied in 2021 were removed at the end of 2022. The impact on the ECL, from the removal of the overlay, was a release of €415 thousand for the year ended 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Overlays (continued)

The use of two different overlays was decided in 2021. The impact of these overlays was estimated at €810 thousand.

1. Loans that were under moratorium in 2020 and were classified as Stage 2 either due to forbearance or presented arrears over 30 days within the year.

   Due to the increased risk of this segment the calculation of the ECL amount under the pessimistic scenario was adopted as the final ECL amount.

2. Uncertainty of macroeconomic factors and their effect on PDs.

   The ECL amount calculated adopting the PD curves under the pessimistic scenario, where assumptions on macroeconomics are more conservative, was adopted in the calculations of final ECL amount.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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.

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 3.30. 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 detailed 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	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Loans and advances at amortised cost	9.227	9.176	9.500	9.491
Balances with banks at amortised cost	820	84	818	80
Debt securities	491	169	491	169
Client deposits	402	469	402	469
	10.940	9.898	11.211	10.209

Interest from loans and advances includes interest on net carrying amount of impaired loans and advances amounting to €1.887 thousand for the Group and €2.158 thousand for the Bank (31 December 2021: €2.403 thousand for the Group and €2.718 thousand for the Bank).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD (continued)

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 €274 thousand (31 December 2021: €315 thousand).

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Bank borrowings	14	9	14	9
Client deposits	191	248	191	248
Balances with banks	368	741	364	735
Loan capital	452	11	452	11
Debt securities	-	73	-	73
Interest expense on lease liability	30	25	30	25
	1.055	1.107	1.051	1.101

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

7. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Credit related fees and commissions	592	554	592	554
Fund transfer commissions	992	1.061	992	1.061
Other banking and brokerage fees and commissions	2.005	1.452	1.401	1.154
	3.589	3.067	2.985	2.769

8. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	225	236	225	236
Banking related fees and commissions	164	57	164	57
Brokerage fees and commissions	53	24	-	-
Management and performance fees	158	91	-	-
	600	408	389	293

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Dividend income	21	-	-	-
Profit/(loss) from disposal of subsidiary (note 21)	132	60	(29)	60
Profit/(loss) on disposal of stock of property (note 25)	66	131	(35)	131
Profit on revaluation of financial assets at FVTPL	11	-	-	-
Negative goodwill (note 22)	-	283	-	-
Other income	170	222	89	24
	400	696	25	215

11. STAFF COSTS

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Salaries	6.422	6.169	6.181	5.932
Employer's contributions	1.043	1.007	1.008	973
Other staff benefits	6	1	6	1
Cost of retirement benefits	554	518	540	505
Compensation for early retirement	19	-	19	-
	8.044	7.695	7.754	7.411

The number of people employed by the Group as at 31 December 2022 was 138 (31 December 2021: 148) and by the Bank 133 (31 December 2021: 142).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2021: 9%) and employee contributions of 3%-10% (2021: 3%-10%) of the employees' gross salaries. The Bank's contributions are charged to the income statement.

From October 2020 onwards the employees of Global Capital Securities and Financial Services Ltd are participating in the plan with employer contributions of 6% and employee contributions of 3%-10% on the employees' gross salaries. The company's contributions are charged to the income statement.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Consultancy and legal fees	567	679	536	656
Regulatory fees	283	196	266	179
IT related expenses	955	871	946	859
Marketing, subscriptions and donations	295	298	280	285
Utilities	328	282	315	272
Other operating expenses	1.080	880	1.000	904
	3.508	3.206	3.343	3.155

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

	THE GROUP AND THE BANK	
	2022	2021
	€'000	€'000
Contribution to Deposit Guarantee Fund	129	108
Single Resolution Fund contribution	86	61
Special levy on deposits of credit institutions in Cyprus	603	652
	818	821

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. LOSS BEFORE TAX

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

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees (note 42)	222	194	222	194
Expenses	11	6	11	6
Independent auditors' remuneration:				
Audit of annual accounts	128	129	105	105
Other non-audit services	49	12	49	12
Other assurance services	3	12	3	12
Profit/(loss) on disposal/write off of equipment	(5)	1	(5)	1
Depreciation on:				
Premises and equipment (note 23)	456	521	455	519
Computer software (note 24)	377	356	377	348

14. PROVISIONS FOR IMPAIRMENT

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Loans and advances	(399)	1.191	(399)	1.191
Receivables and other assets	63	(40)	63	(40)
Financial guarantees and commitments (note 30)	(28)	(605)	(28)	(605)
Debt securities at FVOCI (note 20)	(3)	(1)	(3)	(1)
Debt securities at amortised cost (note 20)	21	15	21	15
Balances with Group companies	-	-	(76)	619
Cash and cash equivalents	2	9	2	9
Impairment losses on stock of property (note 25)	248	551	248	87
Changes in contractual cash flows due to modifications	260	-	260	-
	164	1.120	88	1.275

15. TAXATION

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Corporation tax	-	18	-	-
Deferred tax (note 29)	(19)	4	(19)	4
Special contribution to the defence fund	-	5	-	-
	(19)	27	(19)	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. TAXATION (continued)

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.

Due to tax losses sustained in the year, no tax liability arises on the Bank. Under current legislation, tax loss may be carried forward and be set off against taxable income of the five succeeding years. As at 31 December 2022, the balance of tax losses which is available for offset against future taxable profits amounts to €5.820 thousand.

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

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Accounting loss before tax	(55)	(1.283)	(23)	(1.402)
Corporation tax on the loss for the year at the rates applicable in Cyprus	(7)	(160)	(3)	(175)
Tax effect of:				
Expenses not deductible for tax purposes	231	212	224	209
Allowances and income not subject to tax	(229)	(175)	(226)	(175)
Deferred tax asset on tax losses not recognised	5	141	5	141
Corporation tax	-	18	-	-
Deferred tax	(19)	4	(19)	4
Special contribution to the defence fund	-	5	-	-
Charge for the year	(19)	27	(19)	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

16. BASIC AND DILUTED LOSS PER SHARE

	THE GROUP		THE BANK	
	2022	2021	2022	2021
Basic and diluted loss per share				
Loss attributable to the owners of the parent company (€'000)	(39)	(1.330)	(4)	(1.406)
Weighted average number of shares in issue during the year ('000)	43.276	43.276	43.276	43.276
Basic and fully diluted loss per share (cent)	(0,09)	(3,07)	(0,01)	(3,25)

	THE GROUP AND THE BANK	
Weighted average number of ordinary shares in issue	2022	2021
Weighted average number of shares in issue during the year ('000)	43.276	43.276

17. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Cash	938	997	938	997
Balances with central banks	219.426	165.988	219.426	165.988
	220.364	166.985	220.364	166.985
Balances with other banks	2.252	3.266	2.117	3.193
Stage 1 – 12 month expected credit losses	(2)	-	(2)	-
	2.250	3.266	2.115	3.193

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.559 thousand (2021: €4.342 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2022 €'000	2021 €'000
Loans and advances	249.782	263.272
Changes to contractual cash flows due to modifications	(260)	-
Impairment losses individually assessed	(30.629)	(44.733)
Impairment losses collectively assessed	(2.664)	(4.069)
	216.229	214.470

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

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

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
Transfer from Stage 1 to Stage 2	(1.303)	1.303	-	-	-
Transfer from Stage 1 to Stage 3	(49)	-	49	-	-
Transfer from Stage 2 to Stage 3	-	(41)	41	-	-
Transfer from Stage 3 to Stage 2	-	4.966	(4.966)	-	-
Transfer from Stage 2 to Stage 1	3.077	(3.077)	-	-	-
Transfer from Stage 3 to Stage 1	1.312	-	(1.312)	-	-
Net movement during the period	17.701	(8.318)	(20.482)	(2.391)	(13.490)
31 December	124.573	53.195	62.169	9.845	249.782

THE GROUP AND THE BANK	2021				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	106.922	58.467	104.128	19.643	289.160
Transfer from Stage 1 to Stage 2	(10.714)	10.714	-	-	-
Transfer from Stage 1 to Stage 3	(1.508)	-	1.508	-	-
Transfer from Stage 2 to Stage 3	-	(3.673)	3.673	-	-
Transfer from Stage 3 to Stage 2	-	6.170	(6.170)	-	-
Transfer from Stage 2 to Stage 1	7.611	(7.611)	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Net movement during the period	1.524	(5.705)	(14.300)	(7.407)	(25.888)
31 December	103.835	58.362	88.839	12.236	263.272

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	6.196	6.065	6.065	6.065
Acquisitions	-	131	-	-
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	(2)	(2)	(2)	(2)
Increase in fair value	11	-	-	-
Balance 31 December	9	(2)	(2)	(2)
Balance 31 December at fair value	142	131	-	-

On 8 October 2021, the Bank's subsidiary Global Capital Limited acquired 150.728 redeemable shares in Interorient Shipping Fund AIF V.C.I.C Plc for the consideration of €130.500. 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 2022 amounts to €142 thousand (31 December 2021: €131 thousand).

The investment in Interorient Shipping Fund AIF V.C.I.C Plc is classified as investments at fair value through profit or loss 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 2022

20. INVESTMENTS IN DEBT SECURITIES

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Securities at amortised cost				
Government bonds	40.791	24.189	40.791	24.189
Corporate bonds	4.541	-	4.541	-
Treasury bills	39.811	82.061	39.811	82.061
	85.143	106.250	85.143	106.250
Securities at FVOCI				
Government bonds	5.086	5.429	5.086	5.429
	90.229	111.679	90.229	111.679

All debt securities are listed.

The movement of debt securities was as follows:

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Securities at amortised cost				
Balance at 1 January	106.332	76.771	106.332	76.771
Acquisitions	229.538	193.428	229.538	193.428
Maturities	(250.369)	(163.367)	(250.369)	(163.367)
Amortisation of discounts/premiums and interest	(255)	(500)	(255)	(500)
	85.246	106.332	85.246	106.332
Stage 1 - 12 month expected credit losses	(103)	(82)	(103)	(82)
Balance 31 December	85.143	106.250	85.143	106.250

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Securities at FVOCI				
Balance at 1 January	5.440	5.585	5.440	5.585
Amortisation of discounts/premiums and interest	(98)	(98)	(98)	(98)
Mark to market valuation	(248)	(47)	(248)	(47)
	5.094	5.440	5.094	5.440
Stage 1 - 12 month expected credit losses	(8)	(11)	(8)	(11)
Balance 31 December	5.086	5.429	5.086	5.429

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

20. INVESTMENTS IN DEBT SECURITIES (continued)

Movement of Expected credit losses

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Balance 1 January	93	79	93	79
Stage 1 – 12 month expected credit losses FVOCI (note 14)	(3)	(1)	(3)	(1)
Stage 1 – 12 month expected credit losses amortised cost (note 14)	21	15	21	15
Balance 31 December	111	93	111	93

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
	2022	2021	
In Cyprus:	%	%	
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services

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

	Shareholding		Activities
	2022	2021	
	%	%	
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 2022

21. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

At 31 December 2022 the Bank had 100% shareholding in the Cyprus registered Special Purpose Entity companies (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
- Metrore Properties Limited
- Primesky Limited
- Starwiz Limited
- Wailmer Holdings Limited

Acquisition, dissolution and disposal of subsidiaries

During the year ended 31 December 2022, the Bank acquired one new subsidiary (2021: one), 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.

Pekito Holdings Limited and Jekelani Holding Limited were disposed off during the year. Loss on disposal of subsidiary companies of €29 thousand was recorded in the income statement of the Bank (2021: €60 thousand profit) and profit of €132 thousand in the consolidated income statement (2021: € 60 thousand profit) (note 10).

As at 31 December 2022 Wailmer Holdings Limited and Metrore Properties Limited were in the process of being struck off.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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:

	2022 €'000	2021 €'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(1.186)	(1.164)
Fair value of investment 31 December	**1.095**	**1.117**
Amounts due to subsidiary company	(369)	(488)
Amounts due by subsidiary company		
Gross amount due by subsidiary company	484	465
Provision for impairment - collective	(2)	(3)
	482	462
Total exposure in Global Capital Limited	**1.208**	**1.091**
Income for the year	31	28
Expenses for the year	46	167

Movement in fair value of Global Capital Limited

	2022 €'000	2021 €'000
Fair value 1 January	1.117	1.003
Movement of fair value	(22)	114
Fair value of investment 31 December	**1.095**	**1.117**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

21. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Special Purpose Entities (SPEs)

	2022 €'000	2021 €'000
Cost of investments 1 January	10	9
Additions - new subsidiaries set up	2	2
Disposals	(3)	(1)
Cost of investments 31 December	**9**	**10**
Amounts due to SPEs	(357)	(160)
Amounts due by SPEs		
Gross amount due by SPEs	5.983	10.201
Provision for impairment	(1.143)	(1.779)
	4.840	8.422
Total exposure in SPEs	**4.492**	**8.272**
Income for the year	266	323
Expenses for the year	-	1
Total exposure in subsidiary companies	**5.700**	**9.363**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. INVESTMENTS IN ASSOCIATES

THE GROUP

In October 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 (particiapation of 29,15%). The details of the investment are as follows:

Name	Country of incorporation	Effective shareholding		Activities
		2022	2021	
		%	%	
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

	2022	2021
	€'000	€'000
Total assets	3.090	3.128
Total liabilities	(671)	(823)
Equity	**2.419**	**2.305**
Group's share in equity - carrying amount of investment	**670**	**672**
Group's share of loss for the year	**(1)**	**(62)**

The price paid for the acquisition of CLR Investment Fund Public Ltd in October 2021 amounted to €451 thousand and a negative goodwill of €283 was recognised in the consolidated income statement of 2021 under other income (note 10).

Details on the calculation of negative goodwill on acquisition are presented in the table below:

	2021
	€'000
Price paid for the acquisition of shares in CLR Investment Fund Public Ltd	451
Less: share of net assets acquired	(734)
Negative goodwill on acquisition	(283)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. PREMISES AND EQUIPMENT

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	-	(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	-	(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

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2021				
Cost or valuation				
Balance 1 January	5.997	3.338	1.121	10.456
Additions	18	132	-	150
Remeasurement of RoU assets	-	-	(235)	(235)
Balance 31 December	6.015	3.470	886	10.371
Depreciation				
Balance 1 January	483	2.786	258	3.527
Charge for the year	119	224	178	521
Remeasurement of RoU assets	-	-	(235)	(235)
Balance 31 December	602	3.010	201	3.813
Net book value 31 December	5.413	460	685	6.558
Historic net book value of own premises stated at valuation 31 December	3.311	-	-	3.311

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. PREMISES AND EQUIPMENT (continued)

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	-	(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	-	(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

THE BANK	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2021				
Cost or valuation				
Balance 1 January	5.899	3.096	1.031	10.026
Additions	17	134	-	151
Remeasurement of RoU assets	-	-	(146)	(146)
Balance 31 December	5.916	3.230	885	10.031
Depreciation				
Balance 1 January	385	2.549	213	3.147
Charge for the year	118	223	178	519
Remeasurement of RoU assets	-	-	(190)	(190)
Balance 31 December	503	2.772	201	3.476
Net book value 31 December	5.413	458	684	6.555
Historic net book value of own premises stated at valuation 31 December	3.311	-	-	3.311

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. PREMISES AND EQUIPMENT (continued)

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

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

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

The net book value of freehold premises, on a cost less accumulated depreciation basis, as at 31 December 2022 would have amounted to €3.273 thousand (2021: €3.287 thousand). The net book value of leasehold premises as at 31 December 2022 amounts to €23 thousand (2021: €24 thousand).

NOTES TO THE FINANCIAL STATEMENTS

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24. INTANGIBLE ASSETS

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

2021	THE GROUP Computer software €'000	THE BANK Computer software €'000
Cost		
Balance 1 January	5.535	5.361
Additions	291	292
Balance 31 December	5.826	5.653
Depreciation and impairment losses		
Balance 1 January	4.664	4.499
Charge for the year	356	348
Balance 31 December	5.020	4.847
Net book value 31 December	806	806

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

25. STOCK OF PROPERTY

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Stock of property	8.633	9.702	3.971	1.331
	8.633	9.702	3.971	1.331

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

The carrying value of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of stock of property. During 2022 an impairment loss of €248 thousand (2021: €551 thousand) was recognised in the consolidated income statement and €248 thousand (2021: €87) in the income statement of the Bank (note 14).

The stock of property held on 31 December 2022 consisted mainly of commercial/industrial buildings of €4,7 million, commercial land plots of €2,3 million, agricultural land plots of €0,6 million and residential land and buildings of € 1 million.

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

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Net book value 1 January	9.702	10.225	1.331	529
Additions	3.083	1.631	3.083	1.615
Disposals of stock of property	(944)	(769)	(195)	(726)
Disposal of subsidiaries (note 21)	(2.960)	(834)	-	-
Movement in impairment loss provision (note 14)	(248)	(551)	(248)	(87)
Balance 31 December	8.633	9.702	3.971	1.331

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

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Net proceeds	1.010	900	160	857
Carrying value of stock of property disposed of	(944)	(769)	(195)	(726)
Profit/(loss) on disposal of stock of property (note 10)	66	131	(35)	131

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

26. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Sundry debtors and other assets	1.941	1.595	972	721
	1.941	1.595	972	721

27. BANK BORROWINGS

THE GROUP AND THE BANK

	2022	2021
	€'000	€'000
Borrowings	2.328	2.749
	2.328	2.749

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 2022 two tranches were disbursed for a total amount of €4.210 thousand carrying a floating interest based on the six-month Euribor and a margin of 0,708%. Both tranches are repayable within ten years, from the date of disbursement, in twenty equal semi-annual instalments as follows:

		Balance		
	Disbursed	2022	2021	Maturity
	€'000	€'000	€'000	
Tranche 1	2.000	1.001	1.201	8 November 2027
Tranche 2	2.210	1.327	1.548	24 October 2028
	4.210	2.328	2.749	

28. CLIENT DEPOSITS

THE GROUP AND THE BANK

	2022	2021
	€'000	€'000
Demand deposits	321.600	253.456
Fixed-term or notice deposits	165.241	184.352
	486.841	437.808

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. DEFERRED TAXATION

	THE GROUP		THE BANK	
	2022	2021	2022	2021
Movement in deferred tax liability:	€'000	€'000	€'000	€'000
Balance 1 January	346	440	346	440
Deferred tax on revaluation of premises	(26)	(98)	(26)	(98)
(Credited)/debited to the income statement	(19)	4	(19)	4
Balance 31 December	301	346	301	346

	THE GROUP		THE BANK	
	2022	2021	2022	2021
Deferred tax liability comprises of:	€'000	€'000	€'000	€'000
Surplus on revaluation of premises (net of accumulated depreciation)	326	351	326	351
Accumulated temporary timing differences between depreciation and capital allowances	(25)	(5)	(25)	(5)
	301	346	301	346

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

	2022		2021	
	€'000	Expiry date	€'000	Expiry date
Balance 31 December	5.820	2023-2027	8.021	2022-2026

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

30. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	2.008	2.795	1.291	2.407
Items in the course of settlement	5.321	21.024	5.321	21.024
Deferred income	285	203	285	203
Lease liability (note 31)	657	680	657	680
Provision for financial guarantees and commitments	84	112	84	112
	8.355	24.814	7.638	24.426

Items in the course of settlement as at 31 December 2021, included an amount of €15 million relating to a Bankers' Draft issued for a client which was presented for payment after year-end as well as an incoming fund of €3,7 million received on 31 December 2021 which was applied to the customer's account after year-end.

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

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	2022	2021
	€'000	€'000
Balance 1 January	112	717
Net decrease in provision (note 14)	(28)	(605)
Balance 31 December	84	112

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

31. LEASE LIABILITIES

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

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

Movement in lease liability

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Balance 1 January	680	889	680	842
Remeasurement of lease liability	131	(3)	131	44
Cash-outflow payments	(184)	(231)	(184)	(231)
Interest expense	30	25	30	25
	657	680	657	680

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:

THE GROUP AND THE BANK
2022

	One year or less	Between one and two years	Between two and five years	More than five years	Total
	€'000	€'000	€'000	€'000	€'000
Other liabilities - lease liabilities	174	175	308	-	657

THE GROUP AND THE BANK
2021

	One year or less	Between one and two years	Between two and five years	More than five years	Total
	€'000	€'000	€'000	€'000	€'000
Other liabilities - lease liabilities	187	176	317	-	680

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 2022

32. LOAN CAPITAL

THE GROUP AND THE BANK

		2022		2021	
		€'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 the Note was sold by Bank of Cyprus to Limondi Limited a company owned by the majority of the Bank's shareholders. The interest rate on the Note is fixed at 13,75% per annum, payable semi annually on 30th June and 31st December of each year. The payment of interest can be cancelled by the Bank (the Issuer) at its discretion, provided that at the time of such interest payment:

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

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

Any interest payment cancelled, as indicated above, shall not accumulate or be payable at any time thereafter. For the year ending 31 December 2022 although the conditions for payment of interest were met, Limondi Limited waived its right to receive any interest payment under the terms of the Note for 2022, hence 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 2022

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

	2022		2021	
	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
Total issued share capital	43.275.979	8.655	43.275.979	8.655

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

34. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

THE GROUP AND THE BANK

Contingent liabilities	2022 €'000	2021 €'000
Guarantees issued	19.205	20.632

Commitments	2022 €'000	2021 €'000
Documentary credits	405	559
Undrawn commitments for loans and advances granted to clients	31.327	33.523
	31.732	34.082
Contingent liabilities and commitments	**50.937**	**54.714**

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

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

Capital Commitments

Commitments for contracted capital expenditure as at 31 December 2022 amounted to €189 thousand (2021: €75 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 2022 amounted to €40.729 thousand (2021: €44.825 thousand) for the Group and €1.734 thousand (2021: €2.007) for the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 and 2021, 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 2022

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
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		-	-	-	-

THE GROUP
2021

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVTPL					
Equities	19	-	-	131	131
Investments at FVOCI					
Debt securities	20	-	5.429	-	5.429
		-	5.429	131	5.560
Financial liabilities		-	-	-	-

There were no transfers between levels during 2022 and 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

36. FAIR VALUE (continued)

Financial instruments measured at fair value (continued)

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		-	-	-	-

THE BANK
2021

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	20	-	5.429	-	5.429
Investments in subsidiary companies	21	-	-	1.117	1.117
		-	5.429	1.117	6.546
Financial liabilities		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

2021	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	23	-	-	5.413	5.413

There were no transfers between levels during 2022 and 2021.

THE BANK

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

2021	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	23	-	-	5.413	5.413

There were no transfers between levels during 2022 and 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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 2022 and 2021.

2021	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	166.985	-	166.985
Balances with other banks	-	3.266	-	3.266
Loans and advances	-	-	214.470	214.470
Debt securities at amortised cost	14.831	91.880	-	106.711
Investments in associates	-	-	294	294
	14.831	262.131	214.764	491.726
Financial liabilities				
Bank borrowings	-	-	2.749	2.749
Client deposits	-	-	437.808	437.808
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	112	112
	-	-	451.930	451.930

There were no transfers between levels during 2022 and 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

36. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

THE BANK

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				
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

2021	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	166.985	-	166.985
Balances with other banks	-	3.193	-	3.193
Loans and advances	-	-	214.470	214.470
Debt securities at amortised cost	14.831	91.880	-	106.711
	14.831	262.058	214.470	491.359
Financial liabilities				
Bank borrowings	-	-	2.749	2.749
Client deposits	-	-	437.808	437.808
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	112	112
	-	-	451.930	451.930

There were no transfers between levels during 2022 and 2021.

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 2022

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 €109 thousand (2021: €112) 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 2022.

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	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Cash	938	997	938	997
Balances with central banks	214.867	161.646	214.867	161.646
Balances with other banks	2.250	3.266	2.115	3.193
	218.055	165.909	217.920	165.836

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

For the year ended 31 December 2022

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

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

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 clients are classified into risk grades based on quantitative ratings derived from external models in combination with qualitative assessments.

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 opportunities and minimise the risk of default. The revised terms usually include extending maturity, changing timing of interest and principal payments and amendments of terms of loan covenants.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis

THE GROUP	Note	2022				
		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
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		114.453	46.314	9.278	6.698	176.743
Overdue less than 30 days		10.113	6.873	2.667	2.801	22.454
Overdue between 30-90 days		5	7	1.482	-	1.494
Overdue more than 90 days		2	1	48.742	346	49.091
Total	18	124.573	53.195	62.169	9.845	249.782
Debt securities						
B1 - B3		14.473	-	-	-	14.473
Ba1 - Ba3		72.654	-	-	-	72.654
Baa1 - Baa3		3.213	-	-	-	3.213
	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 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis (continued)

THE GROUP	Note	2021				
		Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		1.176	-	-	-	1.176
A1 - A3		1	-	-	-	1
Ba1 - Ba3		167.098	-	-	-	167.098
B1 – B3		406	-	-	-	406
Unrated		573	-	-	-	573
	17	169.254	-	-	-	169.254
Loss allowance		-	-	-	-	-
Carrying amount	17	169.254	-	-	-	169.254
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		103.835	55.310	-	5.305	164.450
Grade 4-5: Special mention		-	3.052	-	-	3.052
Non-performing		-	-	88.839	6.931	95.770
	18	103.835	58.362	88.839	12.236	263.272
Loss allowance	18	(702)	(3.367)	(44.699)	(34)	(48.802)
Carrying amount	18	103.133	54.995	44.140	12.202	214.470
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		81.135	48.048	5.496	11.358	146.037
Overdue less than 30 days		22.696	10.313	6.387	764	40.160
Overdue between 30-90 days		2	-	2.482	-	2.484
Overdue more than 90 days		2	1	74.474	114	74.591
Total	18	103.835	58.362	88.839	12.236	263.272
Debt securities						
Baa1 - Baa3		4.148	-	-	-	4.148
Ba1 - Ba3		107.624	-	-	-	107.624
	20	111.772	-	-	-	111.772
Loss allowance	20	(93)	-	-	-	(93)
Carrying amount	20	111.679	-	-	-	111.679
Contingent liabilities and commitments						
Gross amount	34	53.800	595	187	132	54.714
Loss allowance	30	(112)	-	-	-	(112)
Carrying amount		53.688	595	187	132	54.602

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		114.453	46.314	9.278	6.698	176.743
Overdue less than 30 days		10.113	6.873	2.667	2.801	22.454
Overdue between 30-90 days		5	7	1.482	-	1.494
Overdue more than 90 days		2	1	48.742	346	49.091
Total	18	124.573	53.195	62.169	9.845	249.782
Debt securities						
B1 - B3		14.473	-	-	-	14.473
Ba1 - Ba3		72.654	-	-	-	72.654
Baa1 - Baa3		3.213	-	-	-	3.213
	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 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis (continued)

THE BANK		2021				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		1.176	-	-	-	1.176
A1 - A3		1	-	-	-	1
Ba1 - Ba3		167.037	-	-	-	167.037
B1 – B3		406	-	-	-	406
Unrated		561	-	-	-	561
	17	169.181	-	-	-	169.181
Loss allowance		-	-	-	-	-
Carrying amount	17	169.181	-	-	-	169.181
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		103.835	55.310	-	5.305	164.450
Grade 4-5: Special mention		-	3.052	-	-	3.052
Non-performing		-	-	88.839	6.931	95.770
	18	103.835	58.362	88.839	12.236	263.272
Loss allowance	18	(702)	(3.367)	(44.699)	(34)	(48.802)
Carrying amount	18	103.133	54.995	44.140	12.202	214.470
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		81.135	48.048	5.496	11.358	146.037
Overdue less than 30 days		22.696	10.313	6.387	764	40.160
Overdue between 30-90 days		2	-	2.482	-	2.484
Overdue more than 90 days		2	1	74.474	114	74.591
Total	18	103.835	58.362	88.839	12.236	263.272
Debt securities						
Baa1 - Baa3		4.148	-	-	-	4.148
Ba1 - Ba3		107.624	-	-	-	107.624
	20	111.772	-	-	-	111.772
Loss allowance	20	(93)	-	-	-	(93)
Carrying amount	20	111.679	-	-	-	111.679
Contingent liabilities and commitments						
Gross amount	34	53.800	595	187	132	54.714
Loss allowance	30	(112)	-	-	-	(112)
Carrying amount		53.688	595	187	132	54.602

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK	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

	2021				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	45.872	13.046	23.701	-	82.619
Construction & real estate	29.988	21.743	14.873	11.933	78.537
Industry	5.259	1.897	9.069	-	16.225
Hotels & catering	9.840	21.020	10.683	-	41.543
Agriculture	994	-	10.744	-	11.738
Transport and storage	1.732	-	636	-	2.368
Other sectors	10.150	656	19.133	303	30.242
	103.835	58.362	88.839	12.236	263.272
Loss allowance	(702)	(3.367)	(44.699)	(34)	(48.802)
Carrying amount	103.133	54.995	44.140	12.202	214.470

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 €1.901 thousand (2021: €1.523 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK	2022 €'000	2021 €'000
Carrying amount		
Grade 1-3: Low-medium risk	176.496	160.764
Grade 4-5: Special mention	5.040	2.669
	181.536	163.433
Of which loans and advances with renegotiated terms	46.465	37.192
*Value of collateral security**		
Grade 1-3: Low-medium risk	134.736	116.570
Grade 4-5: Special mention	3.741	1.518
	138.477	118.088
Of which loans and advances with renegotiated terms	37.902	31.225

**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 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK

2022	Total loans and advances €'000	Performing loans and advances: Non-restructured €'000	Performing loans and advances: Restructured €'000	Performing loans and advances: Total €'000	Non-performing loans and advances €'000
Loans and advances to corporate legal entities					
Services	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 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK

2021		Performing loans and advances			Non-performing
	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	61.842	38.638	6.022	44.660	17.182
Construction & real estate	67.170	35.667	16.222	51.889	15.281
Industry	9.942	2.133	1.824	3.957	5.985
Hotels & catering	36.466	15.464	13.369	28.833	7.633
Agriculture	7.734	-	-	-	7.734
Other sectors	1.547	-	-	-	1.547
	184.701	91.902	37.437	129.339	55.362
Loans and advances to retail legal entities					
Services	12.890	7.149	934	8.083	4.807
Construction & real estate	9.265	4.871	-	4.871	4.394
Industry	6.284	3.127	73	3.200	3.084
Hotels & catering	2.976	961	-	961	2.015
Agriculture	3.767	994	-	994	2.773
Transport and storage	2.357	1.732	-	1.732	625
Other sectors	-	-	-	-	-
	37.539	18.834	1.007	19.841	17.698
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	13.948	7.002	-	7.002	6.946
Consumer Loans	12.455	4.649	567	5.216	7.239
Current accounts	4.550	1.120	2	1.122	3.428
Credit facilities to sole traders	10.079	4.056	926	4.982	5.097
	41.032	16.827	1.495	18.322	22.710
Total loans and advances	263.272	127.563	39.939	167.502	95.770
Provisions	(48.802)	(1.322)	(2.747)	(4.069)	(44.733)
Carrying amount	214.470	126.241	37.192	163.433	51.037

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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		
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 2022

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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

	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2021	Total	Non-performing	Provision	Total	Non-performing	Provision	Total	Non-performing	Provision	Total	Non-performing	Provision
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within one year	10.964	371	377	9.488	279	285	676	-	-	800	92	92
Between one and two years	22.615	4.621	1.225	17.914	4.620	1.221	1.732	-	1	2.969	1	3
Between two and three years	15.737	921	190	11.829	875	178	2.722	-	5	1.186	46	7
Between three and five years	38.756	2.418	487	34.935	1.157	405	904	-	-	2.917	1.261	82
Between five and seven years	21.984	9.955	3.547	19.818	8.935	3.343	409	-	-	1.757	1.020	204
Between seven and ten years	12.416	5.337	2.412	9.430	3.111	1.746	107	-	-	2.879	2.226	666
Over ten years	140.800	72.147	40.564	118.826	54.083	32.659	7.398	6.946	689	14.576	11.118	7.216
	263.272	95.770	48.802	222.240	73.060	39.837	13.948	6.946	695	27.084	15.764	8.270

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

2021	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	21.182	3.512	17.670	16.470
Between three and six months	865	688	177	157
Between six months and one year	3.553	1.010	2.543	2.527
Over one year	70.170	39.523	30.647	24.269
Total	95.770	44.733	51.037	43.423
Of which loans and advances with renegotiated terms	51.288	16.960	34.328	31.454

**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 2022

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. 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

2022	Maximum exposure to credit risk €'000	Value of collateral* Cash €'000	Property €'000	Other €'000	Total collateral €'000	Net exposure to credit risk €'000
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
2021						
Loans and advances to customers						
Performing						
Stage 1	103.133	1.889	70.033	500	72.422	30.711
Stage 2	54.995	229	40.240	-	40.469	14.526
POCI	5.305	-	5.197	-	5.197	108
	163.433	2.118	115.470	500	118.088	45.345
Non-performing						
Stage 3	44.140	178	35.433	1.182	36.793	7.347
POCI	6.897	-	6.630	-	6.630	267
	51.037	178	42.063	1.182	43.423	7.614
	214.470	2.296	157.533	1.682	161.511	52.959

**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 2022

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

	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 orginated or purchased	12	-	-	71	83
Changes to contractual write offs due to modifications not resulting in derecognition	260	-	-	-	260
Loans and advances written off	-	(14)	(18.242)	-	(18.256)
Interest (provided) not recognised in the income statement	-	-	3.086	3	3.089
Loans derecognised or repaid	(3)	(74)	(948)	-	(1.025)
Change due to models and inputs	(371)	(1.066)	2.022	-	585
31 December	930	1.990	30.513	120	33.553

POCI: Purchased or originated as Credit Impaired

During 2022 exposures of €18.256 thousand (2021: €17.899 thousand) were written off, out of which €15.700 thousand (2021: €12.961) relate to accounting write offs.

	2021				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	2.388	1.346	57.942	249	61.925
Transfers to Stage 1	344	(344)	-	-	-
Transfers to Stage 2	(365)	526	(161)	-	-
Transfers to Stage 3	(7)	(16)	23	-	-
Loans and advances written off	-	-	(17.899)	-	(17.899)
Interest (provided) not recognised in the income statement	-	-	3.587	-	3.587
Charge for the year	(1.658)	1.855	1.209	(215)	1.191
Previously written off now recovered	-	-	(2)	-	(2)
31 December	702	3.367	44.699	34	48.802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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:

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Aaa – Aa3	36	1.176	36	1.176
A1 – A3	15	1	15	1
Ba1 – Ba3	219.773	167.098	219.764	167.037
B1 – B3	1.174	406	1.048	406
Unrated	678	573	678	561
	221.676	169.254	221.541	169.181

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 securities price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments. The prices of equity investments are being monitored by the Group on a regular basis.

The portfolio of equity investments at 31 December 2022 and 31 December 2021 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 the relevant stock exchange indices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.1 Price risk (continued)

Equity securities price risk (continued)

THE GROUP

	2022			2021		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities at FVTPL						
Non-listed investments	142	+20	28	131	+20	26
Non-listed investments	142	-20	(28)	131	-20	(26)

THE BANK

	2022			2021		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities at FVOCI						
Non-listed investments	1.095	+20	219	1.117	+20	223
Non-listed investments	1.095	-20	(219)	1.117	-20	(223)

Concentration of equity securities

THE GROUP

	2022 €'000	2021 €'000	2022 €'000	2021 €'000
By sector				
Shipping	142	131	-	-
	142	131	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

	2022			2021		
	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	5.086	+10%	509	5.429	+10%	543
For below A3 rated bonds	5.086	-10%	(509)	5.429	-10%	(543)

Concentration of debt securities

	THE GROUP		THE BANK	
	2022 €'000	2021 €'000	2022 €'000	2021 €'000
By sector				
Sovereigns	85.688	111.679	85.688	111.679
Corporate bonds	4.541	-	4.541	-
	90.229	111.679	90.229	111.679
By country				
Cyprus	65.598	66.173	65.598	66.173
Greece	10.160	41.359	10.160	41.359
Italy	14.471	4.147	14.471	4.147
	90.229	111.679	90.229	111.679

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 rates fluctuations, and takes measures to contain to acceptable levels the effects of these changes on the Group's profitability.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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 2022

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE GROUP 2021	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	165.988	-	-	-	-	997	166.985
Balances with other banks	2.267	999	-	-	-	-	3.266
Loans and advances	95.176	26.236	85.356	-	-	7.702	214.470
Investments in equities	-	-	-	-	-	131	131
Investments in debt securities	12.253	36.771	40.317	17.011	5.327	-	111.679
Investments in associates	-	-	-	-	-	672	672
Premises and equipment	-	-	-	-	-	6.558	6.558
Intangible assets	-	-	-	-	-	806	806
Stock of property	-	-	-	-	-	9.702	9.702
Receivables and other assets	-	-	-	-	-	1.595	1.595
Total assets	275.684	64.006	125.673	17.011	5.327	28.163	515.864
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.749	-	-	-	2.749
Client deposits	27.785	35.722	119.111	1.734	-	253.456	437.808
Deferred taxation	-	-	-	-	-	346	346
Accruals and other liabilities	-	-	-	-	-	24.814	24.814
Loan capital	-	-	11	-	6.250	5.000	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	30.231	30.231
Total liabilities and equity	27.785	35.722	121.871	1.734	6.250	322.502	515.864
Net position	247.899	28.284	3.802	15.277	(923)	(294.339)	-
Change in interest rates -1% - effect on profit	(2.479)	(283)	(38)	(153)	9	-	(2.944)
Change in interest rates +1% - effect on profit	2.479	283	38	153	(9)	-	2.944

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE BANK 2021	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	165.988	-	-	-	-	997	166.985
Balances with other banks	2.194	999	-	-	-	-	3.193
Loans and advances	95.176	26.236	85.356	-	-	7.702	214.470
Investments in debt securities	12.253	36.771	40.317	17.011	5.327	-	111.679
Investments and exposures in subsidiary companies	-	-	-	-	-	9.363	9.363
Premises and equipment	-	-	-	-	-	6.555	6.555
Intangible assets	-	-	-	-	-	806	806
Stock of property	-	-	-	-	-	1.331	1.331
Receivables and other assets	-	-	-	-	-	721	721
Total assets	275.611	64.006	125.673	17.011	5.327	27.475	515.103
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.749	-	-	-	2.749
Client deposits	27.785	35.722	119.111	1.734	-	253.456	437.808
Deferred taxation	-	-	-	-	-	346	346
Accruals and other liabilities	-	-	-	-	-	24.426	24.426
Loan capital	-	-	11	-	6.250	5.000	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	29.858	29.858
Total liabilities and equity	27.785	35.722	121.871	1.734	6.250	321.741	515.103
Net position	247.826	28.284	3.802	15.277	(923)	(294.266)	-
Change in interest rates -1% - effect on profit	(2.478)	(283)	(38)	(153)	9	-	(2.943)
Change in interest rates +1% - effect on profit	2.478	283	38	153	(9)	-	2.943

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

Interest rate benchmark reform

The LIBOR and the EURIBOR (collectively referred to as IBORs) are the subject of international, national, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or cease to exist entirely or have other consequences that cannot be predicted. Regarding LIBOR reform, regulators and industry working groups have identified alternative rates to transition to. On 5 March 2021 the Financial Conduct Authority (FCA) has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative of the underlying market they intended to measure:

- Immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1 week and 2 month US dollar settings; and
- Immediately after 30 June 2023, in the case of the remaining US dollar settings.

In October 2021, the European Commission designated a statutory replacement rate for certain settings of CHF LIBOR.

The Financial Conduct Authority (FCA), under their new use restriction power, also confirmed that they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. Given that EURIBOR was deemed to be compliant with the EU Benchmarks Regulation, it can continue to be used as a benchmark interest rate for existing and new contracts. Nonetheless, fallback rates to EURIBOR as well as fallback language in agreements involving EURIBOR are required.

The Group currently does not have exposures in currencies affected by the interest rate benchmark reform other than the EURIBOR and therefore does not consider that the Group's exposure to EURIBOR is affected by the BMR reform as at 31 December 2022 and 2021, other than having to establish the required EURIBOR fallback rates and language. CDB established a project to manage the transition to alternative interest rate benchmarks and EURIBOR fallback requirements. The Head of Treasury is the project owner and project manager with oversight by the Assets and Liabilities Committee (ALCO). Major participants in the project are the Legal, Treasury, Finance, Risk Management, Business and IT departments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

		2022	
	Net open position	Change in exchange rates	Effect on profits
Currency	€'000	%	€'000
US Dollar	518	+10	52
British Pound	30	+10	3
Russian Rouble	188	+30	56
Other currencies	37	+10	4
US Dollar	518	-10	(52)
British Pound	30	-10	(3)
Russian Rouble	188	-30	(56)
Other currencies	37	-10	(4)

THE BANK

		2022	
	Net open position	Change in exchange rates	Effect on profits
Currency	€'000	%	€'000
US Dollar	133	+10	13
British Pound	28	+10	3
Russian Rouble	188	+30	56
Other currencies	22	+10	2
US Dollar	133	-10	(13)
British Pound	28	-10	(3)
Russian Rouble	188	-30	(56)
Other currencies	22	-10	(2)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.3 Currency risk (continued)

THE GROUP AND THE BANK		2021	
	Net open position	Change in exchange rates	Effect on profits
Currency	€'000	%	€'000
US Dollar	91	+10	9
British Pound	70	+10	7
Russian Rouble	73	+30	22
Other currencies	(1)	+10	-
US Dollar	91	-10	(9)
British Pound	70	-10	(7)
Russian Rouble	73	-30	(22)
Other currencies	(1)	-10	-

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

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 2022 was 304% (31 December 2021: 268%) and the Bank 303% (31 December 2021: 267%), well above the regulatory minimum requirement of 100%. The NSFR of the Group as at 31 December 2022 was 214% and the Bank 213%, well above the regulatory minimum requirement of 100% imposed in June 2021.

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

THE GROUP

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
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	429	-	1.899	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	2.403	2.282	497.825
OFF BALANCE SHEET						
Guarantees issued	670	2.135	6.478	9.090	832	19.205
Undrawn facilities	2.980	4.385	12.686	11.276	-	31.327
	3.650	6.520	19.164	20.366	832	50.532

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

THE GROUP

2021

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	425	-	2.324	2.749
Client deposits	281.241	35.722	119.111	1.734	-	437.808
Lease liability	25	31	131	493	-	680
Deferred taxation	-	-	-	-	346	346
Accruals and other liabilities	23.826	17	76	102	113	24.134
	305.092	35.770	119.743	2.329	2.783	465.717
OFF BALANCE SHEET						
Guarantees issued	1.936	1.539	7.777	8.307	1.073	20.632
Undrawn facilities	2.947	4.482	13.815	12.279	-	33.523
	4.883	6.021	21.592	20.586	1.073	54.155

THE BANK

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
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	429	-	1.899	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	2.095	2.592	497.108
OFF BALANCE SHEET						
Guarantees issued	670	2.135	6.478	9.090	832	19.205
Undrawn facilities	3.224	4.139	12.687	11.277	-	31.327
	3.894	6.274	19.165	20.367	832	50.532

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

THE BANK

2021

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	425	-	2.324	2.749
Client deposits	281.241	35.722	119.111	1.734	-	437.808
Lease liability	25	31	131	493	-	680
Deferred taxation	-	-	-	-	346	346
Accruals and other liabilities	23.439	17	76	102	112	23.746
	304.705	35.770	119.743	2.329	2.782	465.329
OFF BALANCE SHEET						
Guarantees issued	1.936	1.539	7.777	8.307	1.073	20.632
Undrawn facilities	2.947	4.482	13.815	12.279	-	33.523
	4.883	6.021	21.592	20.586	1.073	54.155

Encumbered assets

Balances with other banks as at 31 December 2022 include encumbered amounts of €1 million (31 December 2021: €999 thousand).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.4 Operational risk (continued)

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

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.

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% starting in 2022).

Basel III Framework comprises of three Pillars:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

- 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')
- 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 2022.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

The 2021 Banking Package (CRR III and CRD VI and BRRD)

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.

The European Council's proposal on CRR and CRD was published on 8 November 2022. During 2023, the finalisation of the European Parliament's position is expected, which will be followed by the trilogue process that will eventually result in the final versions of the directives and regulations. It is expected that the 2021 Banking Package will enter 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 Total Capital Regulatory requirements as at 31 December 2022 stood at 15,70% (2021: 15,70%) and the minimum CET 1 Regulatory requirement stood at 9,93% (2021: 9,93%) as shown below:

Regulatory Capital Requirements	2022	2021
Pillar 1 – Total Capital Requirement	8,00%	8,00%
Pillar 2 – Total Capital Requirement	5,20%	5,20%
Capital Conservation Buffer	2,50%	2,50%
Minimum Total Capital Regulatory Requirements	15,70%	15,70%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

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 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. Based on the above, for 2022 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (2021: 9,93%) and an overall capital adequacy ratio of 15,70% (2021: 15,70%).

Minimum CET1 Regulatory Capital Requirements	2022	2021
Pillar 1 – CET 1 Requirement	4,50%	4,50%
Pillar 2 – CET 1 Requirement	2,93%	2,93%
Capital Conservation Buffer	2,50%	2,50%
Minimum CET 1 Regulatory Requirements	9,93%	9,93%

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. Furthermore, 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.

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 0,50% must be observed from 30 November 2023.

CET 1 ratio as at 31 December 2022 stood at 16,04%, 611bps above the minimum regulatory CET 1 of 9,93%. The Group's Overall Capital Ratio (OCR) as at 31 December 2022 stood at 20,72%, 502 bps above the minimum regulatory OCR. 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 2022

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

The Group's regulatory capital is analysed as follows:

Common Equity Tier I Capital:	It includes share capital, share premium, retained earnings, current year's profits, revaluation and other reserves. Intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier I Capital subject to transitional provisions.
Tier II Capital:	It includes Unsecured Subordinated Bonds (note 32).
Additional Tier I Capital:	It includes the Perpetual Unsecured Subordinated Note (note 32).

The Group has elected to apply the transitional provisions of EU Regulation 2017/2395 for gradual phase in over a five year period of the impact on regulatory capital caused by additional impairments arising from the implementation of IFRS 9 on 1 January 2018. The amount to be added back to regulatory own funds each year decreases based on weighing factors specified in the said EU Regulation. IFRS 9 transitional arrangements were extended in June 2020 in response to COVID 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

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

	THE GROUP		THE BANK	
	2022	2021	2022	2021
	€'000	€'000	€'000	€'000
Transitional basis:				
Regulatory capital				
Common Equity Tier 1	38.524	40.742	38.440	40.464
Additional Tier 1	5.000	5.000	5.000	5.000
Tier 2	6.250	6.250	6.250	6.250
Total regulatory capital	49.774	51.992	49.690	51.714
Risk weighted assets				
Credit risk	215.812	224.805	216.056	225.052
Operational risk	24.395	25.352	24.610	25.389
Total risk weighted assets	240.207	250.157	240.666	250.441
Common Equity Tier 1 ratio	**16,04%**	**16,29%**	**15,97%**	**16,16%**
T1 Capital ratio	**18,12%**	**18,29%**	**18,05%**	**18,15%**
Overall capital adequacy ratio	**20,72%**	**20,78%**	**20,65%**	**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	
	2022	2021	2022	2021
Fully loaded basis:				
Common Equity Tier 1 ratio	**15,75%**	**15,45%**	**15,68%**	**15,32%**
T1 Capital ratio	17,84%	17,48%	17,77%	17,35%
Overall capital adequacy ratio	**20,45%**	**20,03%**	**20,37%**	**19,89%**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 was 7,71% (31 December 2021: 8,47%), and the Bank 7,70% (31 December 2021: 8,53%), 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 Bank has received a formal notification from CBC, in its capacity as the National Resolution Authority, of its final decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank. According to the decision the minimum MREL requirement for the Bank is set at 15,70% of risk weighted assets (RWAs) and 4,25% of leverage ratio exposure (LRE) and this must be met by 31 December 2025. Furthermore, the Bank must comply with an interim requirement of 14,50% of RWAs and 4,25% of LRE as from 1 January 2022, increasing to 14,80% on 1 January 2023 . The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) will not be eligible to meet its MREL requirements expressed in terms of risk-weighted assets. The MREL requirement, is in line with the Bank's funding and capital plans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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
31 December 2021					
Assets					
Cash and balances with central banks	166.985	-	-	-	166.985
Balances with other banks	3.266	-	-	-	3.266
Loans and advances	214.470	-	-	-	214.470
Equity investments	131	131	-	-	-
Debt securities	111.679	-	106.250	5.429	-
	496.531	131	106.250	5.429	384.721
Liabilities					
Bank borrowings	2.749	-	-	-	2.749
Client deposits	437.808	-	-	-	437.808
Loan capital	11.261	-	-	-	11.261
	451.818	-	-	-	451.818

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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
31 December 2021				
Assets				
Cash and balances with central banks	166.985	-	-	166.985
Balances with other banks	3.193	-	-	3.193
Loans and advances	214.470	-	-	214.470
Debt securities	111.679	106.250	5.429	-
	496.327	106.250	5.429	384.648
Liabilities				
Bank borrowings	2.749	-	-	2.749
Client deposits	437.808	-	-	437.808
Loan capital	11.261	-	-	11.261
	451.818	-	-	451.818

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

40. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

	2022			2021		
THE GROUP	Less than one year €'000	Over one year €'000	Total €'000	Less than one year €'000	Over one year €'000	Total €'000
ASSETS						
Cash and balances with central banks	215.805	4.559	220.364	162.643	4.342	166.985
Balances with other banks	2.250	-	2.250	3.266	-	3.266
Loans and advances	65.826	150.403	216.229	66.580	147.890	214.470
Investments in equities	-	142	142	-	131	131
Investments in associates	-	670	670	-	672	672
Investments in debt securities	44.582	45.647	90.229	89.342	22.337	111.679
Premises and equipment	-	6.386	6.386	-	6.558	6.558
Intangible assets	-	671	671	-	806	806
Stock of property	8.633	-	8.633	7.131	2.571	9.702
Receivables and other assets	1.274	667	1.941	856	739	1.595
Total assets	**338.370**	**209.145**	**547.515**	**329.818**	**186.046**	**515.864**
LIABILITIES						
Bank borrowings	428	1.900	2.328	424	2.325	2.749
Client deposits	485.062	1.779	486.841	436.074	1.734	437.808
Deferred taxation	-	301	301	-	346	346
Accruals and other liabilities	8.131	224	8.355	24.599	215	24.814
Loan capital	11	11.250	11.261	11	11.250	11.261
Total liabilities	**493.632**	**15.454**	**509.086**	**461.108**	**15.870**	**476.978**

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 2022

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.

	2022			2021		
THE BANK	Less than one year €'000	Over one year €'000	Total €'000	Less than one year €'000	Over one year €'000	Total €'000
ASSETS						
Cash and balances with central banks	215.805	4.559	220.364	162.643	4.342	166.985
Balances with other banks	2.115	-	2.115	3.193	-	3.193
Loans and advances	65.826	150.403	216.229	66.580	147.890	214.470
Investments in debt securities	44.582	45.647	90.229	89.342	22.337	111.679
Investments and exposures in subsidiary companies	4.576	1.124	5.700	5.744	3.619	9.363
Premises and equipment	-	6.384	6.384	-	6.555	6.555
Intangible assets	-	670	670	-	806	806
Stock of property	3.971	-	3.971	1.331	-	1.331
Receivables and other assets	846	126	972	597	124	721
Total assets	**337.721**	**208.913**	**546.634**	**329.430**	**185.673**	**515.103**
LIABILITIES						
Bank borrowings	428	1.900	2.328	424	2.325	2.749
Client deposits	485.062	1.779	486.841	436.074	1.734	437.808
Deferred taxation	-	301	301	-	346	346
Accruals and other liabilities	7.412	226	7.638	24.212	214	24.426
Loan capital	11	11.250	11.261	11	11.250	11.261
Total liabilities	**492.913**	**15.456**	**508.369**	**460.721**	**15.869**	**476.590**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

41. SHAREHOLDERS

The shareholding structure at 31 December 2022 is shown below:

	Shareholding structure as at 31.12.2022
7Q Invest AIF V.C.I.C. PLC I Multi Opportunities	15,44%
7Q Holdings Ltd	2,75%
7Q Financial Services Ltd	1,80%
Path Holdings Ltd	18,94%
Constantinos Shiacolas	16,31%
Delphis Investments Ltd	15,62%
8Safe International Ltd	9,90%
Intergaz Ltd	9,49%
Leon Investment SARL	4,86%
Leonidas Ioannou	3,49%
Shareholders with holdings below 1%	1,40%

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.

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%".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

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

	2022 €'000	2021 €'000
Director emoluments		
Executives		
Salaries	271	273
Employers contributions for social insurance, etc	28	25
Retirement benefits	24	15
	323	313
Non-Executives		
Fees	222	194
	545	507
Key management personnel emoluments		
Salaries	555	600
Employers contributions for social insurance, etc	70	82
Retirement benefits	50	54
	675	736
Total	1.220	1.243

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 2022 and 2021 include the remuneration of the members of the EXCO committee with voting rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS (continued)

Transactions with members of the Management Body and connected persons:

	2022 €'000	2021 €'000
Loans and advances	575	582
Deposits	158	180
Unutilised limits	43	99
Loan commitments	-	445
Interest and other income for the year	15	19

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.

	2022 €'000	2021 €'000
Loans and advances	125	287
Deposits	174	502
Guarantees and unutilised limits	92	106
Interest and other income for the year	2	3
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.

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

As at 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders (continued)

	2022 €'000	2021 €'000
Deposits	-	10
Loan capital - Subordinated Tier 2 Bonds	-	200
Interest income for the year	-	1

During the year ended 31 December 2022, there were no purchases of goods and services from Shareholders with significant influence and their connected persons as defined above (31 December 2021: nil).

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

Transactions with associates

	2022 €'000	2021 €'000
Loans and advances	597	749
Other trading receivables	11	14
Other trading payables	491	-
Guarantees and unutilised limits	3	1
Interest income for the year	38	40
Other trading income for the year	57	10

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 2022, 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 low or it is too early to make an assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

43. MATERIAL LITIGATION (continued)

Shareholder claim

A legal action by one of the Bank's then shareholders (a shareholder of less than 7% on 30 June 2022) filed in 2016 against the Bank, the Central Bank of Cyprus and other shareholders of the Bank. By the latter action the plaintiff challenged the agreement whereby it became shareholder in the Bank and a subsequent agreement (to which the Bank was not a party) under which it sold a substantial part of its holding to other shareholders. On 22 November 2022 the action was unconditionally withdrawn by the plaintiff.

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.

44. OPERATING ENVIRONMENT

2022 started with positive prospects for the global economy, with high expectations that the recovery which had already started in 2021, after the severe recession caused by the pandemic in 2020, would continue and strengthen even further. However, the optimism that followed the end of the severe phase of the pandemic was overturned in February 2022 by Russia's invasion of Ukraine, which had a dramatic negative impact on global economic recovery. At the same time the invasion triggered the implementation of sanctions by the EU, UK and the US, in a coordinated effort joined by several other countries, imposed against Russia, Belarus and certain regions of Ukraine.

IMF, in the January 2023 World Economic Outlook Update, projects that global growth will fall to 2,9% in 2023 but rise to 3,1% in 2024. The January 2023 forecast is 0,2 percentage point higher than predicted in October 2022, but below the historical average of 3,8% with rising interest rates and the war in Ukraine continuing to weigh on economic activity. Growth in the euro area is projected to bottom out to 0,7% in 2023 before rising to 1,6% in 2024.

To contain inflation, in July 2022, ECB raised interest rates for the first time in 11 years when the main refinancing operations rate was zero and the deposit facility was at -0,5%. The rate hike in September 2022 was the biggest in the ECB's history. As expected, ECB continued to raise interest rates in 2023. The Governing Council of ECB at its last meeting on 4 May 2023, decided to increase the three key ECB interest rates by 25 basis points. Accordingly, the interest rate on the main refinancing operations increased to 3,75%, the interest rate on the marginal lending facility increased to 4% and the interest rate on the deposit facility increased to 3,25%. Financing conditions are expected to tighten further in 2023 and interest rates to remain high throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

44. OPERATING ENVIRONMENT (continued)

Cyprus Economy

Following the global outbreak of the COVID-19 pandemic in 2020, the Cypriot economy exhibited strong signs of recovery during 2021, with GDP at 6,6% exceeding pre-crisis levels and surpassing the EU average of 5,4%. Growth remained strong in 2022 averaging 5,6% which is well above the euro area average of 3,5%. The positive GDP growth was mainly driven by strong domestic demand and supported by a partial rebound in tourism. High energy prices, increasing levels of inflation and the erosion of purchasing power combined with a weakening EU economy, contributed towards a slowdown of the economy during the second half of the year with growth at 4,5% in the fourth quarter of 2022. Ministry of Finance predicts growth of 3% for 2023 while EU Commission in its Winter Report predicts growth of 1,6%.

Inflation as measured by the Harmonised Index of Consumer Prices (HICP) has been following an upward trend since 2021 (2,3%) climbing to 8,1% for 2022. The developments in inflation are the result of the rise in oil and energy prices and disruptions to supply chains that have emerged during the pandemic and exacerbated by the war in Ukraine. Compared to 2021 the largest changes were noted in Housing, Water, Electricity, Gas and other Fuels and Transport. Based on European Commission's winter economic forecast for Cyprus, overall HICP inflation is set to moderate to 4% in 2023 and to 2,5% in 2024.

Employment developments reflect conditions of improved economic activity. Total employment increased by 2,2% in the first nine months of 2022 compared to the first nine months of 2021. The most significant percentage increases were observed in the economic activities of accommodation and food service activities, wholesale and retail trade, manufacturing, information and communication and professional, scientific and technical activities. For 2022 unemployment rate hovered around 7,0% down from 7,5% in 2021. Ministry of Finance projects unemployment rate to fall down to 6,4% in 2023.

Public finances strengthened in 2021 despite substantial government support measures and the budget deficit dropped to 1,8% of GDP. This was driven primarily by sharp increases in tax revenues and social security contributions in the second and third quarters. Expenditures rose at a much slower pace in the period following sharp increases the year before. General government debt remained almost unchanged in 2021 and the debt-to-GDP ratio declined from 115% at end-2020 to 103,9% at end-2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

44. OPERATING ENVIRONMENT (continued)

Cyprus Economy (continued)

On the fiscal side, the recovery in 2021 is underpinned by a significant increase in general government revenue and a relative decline in government expenditure. As a result, the budget deficit in 2021 narrowed to 1,7% recording a substantial improvement compared to a deficit of 5,8% of GDP in 2020. The presence of a deficit in 2021, despite the rebound of the economy with growth surpassing pre-pandemic levels, is attributed to the fiscal impact of -3% of GDP from the government's one-off measure undertaken to tackle the effects of the COVID-19 outbreak, mainly targeting health, businesses and employment positions. Developments in 2022 were favourable for public finances. Revenues grew by 16,7% in the first three quarters of the year, while expenditures increased by 1,3%, indicating a significant surplus in the period. Part of the increase in revenues is a windfall related to the energy crisis, but overall, the current state of public finances is positive. Public debt is sustainable and firmly on a downward path with debt-to-GDP ratio down to 89,3% in 2022 from 103,6% in 2021. Based on the macroeconomic and fiscal forecasts of the Ministry of Finance the debt-to-GDP ratio is expected to fall to 83,3% in 2023. In the longer term, public debt dynamics will depend on interest rate developments, inflation, and growth.

Despite challenges tourist activity recovered strongly during 2022. Tourist arrivals regained lost ground during the pandemic and reached 3,2 million, 80% of the 2019 record high. Estimated revenues reached €2,4 billion in the year, 90% of the 2019 revenues. The increase in arrivals was mainly due to increases from the United Kingdom which represented 38% of total arrivals and to a lesser extent from other European countries and Israel.

Rising energy prices and disruptions to supply chains that have emerged during the pandemic and exacerbated by the war in Ukraine, affect both consumers and businesses and put pressure on both domestic and external demand. The government has taken measures to partly relieve households and businesses from the rising energy prices. From late 2021, the government lowered VAT rates on the electricity consumption and reduced excise duties on petrol and diesel for a limited period until August 2022 with the latter measure remaining in force until the end of January 2023. Furthermore, in September 2022, the government introduced a graduated system of subsidies for electricity consumption to replace the reduced VAT.

Cyprus has secured through the Recovery and Resilience Fund €1.2 billion to finance the National Recovery and Resilience Plan (RRP) with 2026 as the horizon of implementation. An amount of €1 billion will be in the form of grants and a further €200 million will be in the form of loans. The Plan includes a coherent package of 133 measures, 58 reforms and 74 investments. Taking into account the funds of the RRP and the Cohesion Policy Fund, as well as the additional private investments that will result from the implementation of the supported projects, the financial impact of the Plan in over €4 billion. The investments, reforms, plans and actions that fall under the 5 main policy pillars of the Plan are: (i) public health and civil protection, (ii) rapid transition to a green economy, (iii) strengthening the resilience and competitiveness of the economy, (iv) digital transformation and (v) employment, education and human capital. Following the Council's approval of the RRP, Cyprus received a €157 million pre-financing, disbursed in September 2021. In July 2022, Cyprus submitted to the Commission an initial request for €85 million, based on the achievement of the 14 milestones set in the Council Implementing Decision and received the first disbursement in December 2022. The next payments will depend on progress in implementing the plan. Measures under RRP are to be completed in 2026.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

44. OPERATING ENVIRONMENT (continued)

Sovereign ratings

Cyprus continues to enjoy an "investment grade" rating from three major credit rating agencies, namely Fitch, S&P and DBRS Morningstar.

In March 2023 Fitch Ratings upgraded Cyprus' long-term credit rating by one notch to BBB with a stable outlook. Fitch cited the outperformance of the country's fiscal balance and growth rate, as well as resilience from the external shock caused by the war in Ukraine, as the reasons behind the upgrade.

DBRS and S&P upgraded Cyprus to BBB in April 2022 and September 2022 respectively. At the same time, both agencies revised the outlook from positive to stable, with S&P citing that a "stable" outlook reflects a balanced risk profile, which on one hand considers the adverse effects from the war in Ukraine and on the other hand, accounts for the economy's diversified structure and resilience to external shocks, alongside the expectation that the Government's fiscal position will continue to improve.

In July 2021, Moody's upgraded Cyprus' rating to Ba1, just one notch below investment grade. In August 2022, Moody's changed the outlook from stable to positive, highlighting the strong reduction in Cyprus' public debt ratio in 2022, the stronger than expected economic resilience to the war in Ukraine and the COVID-19 pandemic, coupled with ongoing strengthening of the banking sector, with non-performing exposures (NPEs) continuing to decline.

Banking sector overview

Since the banking crisis of 2013 the banking sector underwent a massive restructuring process, achieving a sharp reduction of non-performing loans, significant strengthening of its capital adequacy, which in terms of certain indicators (CET1) exceeds the Eurozone average, as well as strong improvement on its economic results. Challenges ahead are mainly linked to tacking the remaining legacy NPLs, achieving organic growth and further strengthening the role of the banking sector to the long-term growth of Cyprus.

Non-performing loans in the banking sector have decreased by 90,5% from €28,4 billion in December 2014 to €2,7 billion in November 2022, or 10,5% of total loans. Despite the significant progress, the NPL ratio remains significantly higher compared to the EU average of 1,8%. After almost a decade of deleveraging efforts which includes the sale or transfer of non-performing loans, private debt to GDP ratio stands at 80%, approaching the Eurozone average. However, despite offloading large amounts of NPLs to credit acquiring companies, these toxic exposures still remain as part of the econom

Profitability of Banks has been significantly affected over the last years by high provisions for impairments and the low interest rate environment. In 2021, losses of €71 million were recorded, mainly due to loss-making branches of third countries. For the first half of 2022 profits of €55,2 million were recorded, due to lower provisions compared to previous years. The increase of interest rates by ECB will ease profitability pressures on Banks, who enjoy high liquidity and hence are well positioned to benefit from interest rate increases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

44. OPERATING ENVIRONMENT (continued)

Ukrainian crisis

Russia's invasion of Ukraine in February 2022, triggered the implementation of sanctions by the EU, UK and the U.S., in a coordinated effort joined by several other countries, imposed against Russia, Belarus and certain regions of Ukraine and certain Russian entities and nationals. The Group takes all necessary actions to comply with all applicable laws, including sanctions and export controls.

The Group's exposures related to Russia, Ukraine and Belarus as at 31 December 2022 are set out below:

- Loan balances extended to entities with ultimate beneficial owners from Russia amounted to €1 million of which €0,8 million (or 79%) relates to a single loan secured by mortgaged property in prime location, in Cyprus, in favour of the Bank with market value of c. €8,1 million. The remaining amount of €0,2 million mainly relates to loans classified as non-performing, assigned from the Bank's Russian subsidiary JSC cdbbank which was liquidated under a voluntary wind-up process completed in September 2019. No loans extended to entities with ultimate beneficial owners from Ukraine or Belarus.
- Total interbank balances maintained with Russian institutions amount to €0,7 million. No interbank balances maintained with Ukrainian or Belarusian institutions.
- Deposits by individuals or legal entities with ultimate beneficial owners from Russia, Ukraine and Belarus amounted to €24 million, €21 million and €3 million respectively.
- A long foreign exchange position in rubbles of €188 thousand.
- No outstanding LGs, LCs or Bills of Exchange the repayment of which depends on Russian based entities.

Although the Group's direct exposure to Ukraine, Russia or Belarus is limited, the crisis in Ukraine had a negative impact on the Cypriot economy, mainly arising from the tourism and professional services sectors, increasing energy prices fuelling inflation and disruptions to global supply chains. During 2022 the performance of the tourism sector was strong despite challenges and represented 80% of 2019 levels, despite the sizeable loss of tourist arrivals from Russia and Ukraine. The Group continues to monitor exposures in sectors likely impacted by the prolonged geopolitical uncertainty and persistent inflationary pressures and remains in close contact with customers to offer solutions as necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

44. OPERATING ENVIRONMENT (continued)

Recent developments

Throughout March, the banking system was shaken up by a number of high-profile bank failures, a volatile stock market and global banking concerns. The failures of the two banks in the United States, the California based Silicon Valley Bank (the 16th largest bank in the U.S.) and the New York based Signature Bank, prompted the intervention of US authorities who took measures to prevent financial instability of the banking sector. Invoking a "systemic risk exception" the Federal Insurance Corporation (FDIC) announced that all deposits of the two failing banks would be guaranteed above and beyond the maximum standard limit of $250.000 insured by the FDIC. Furthermore, Fed created the Bank Term Funding Program (BTFP) to provide emergency liquidity to banks against eligible collateral. May 2023 saw the failure of the third US Bank, the First Republic Bank headquartered in San Francisco, which prompted the intervention of Regulators who took possession of the Bank. In an auction for the sale of First Republic, JP Morgan was the successful bidder and it will get all of the ailing bank's deposits and a substantial majority of assets.

In Switzerland, after watching shares in Credit Suisse collapse by as much as 30%, Swiss authorities announced a backstop for the country's second biggest bank and one of 30 globally systemic important banks. Credit Suisse was bought by UBS, another Swiss Bank, with the deal being brokered by the Swiss government, which included liquidity assistance from the Swiss National bank and guarantees for partial losses from the government.

Following the Credit Suisse deal, the ECB Banking Supervision, the Single Resolution Board and the European Banking Authority issued a statement welcoming the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability noting at the same time that the European banking sector is resilient, with robust levels of capital and liquidity.

45. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period which affect the consolidated and the separate financial statements of the Company as at 31 December 2022.

The consolidated and the separate financial statements of the Company were approved by the Board of Directors of the Bank on 18 May 2023.

cdbbank
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