



The Cyprus Development Bank Group
Interim Condensed Consolidated Financial Statements
For the period ended 30 June 2024

CONTENTS

	Page
Directors and advisers	3
Interim Management Report	4 - 12
Interim Consolidated Income Statement	13
Interim Consolidated Statement of Comprehensive Income	14
Interim Consolidated Statement of Financial Position	15
Interim Consolidated Statement of Changes in Equity	16
Interim Consolidated Statement of Cash Flows	18
Notes to the Interim Consolidated Financial Statements	19 - 83

DIRECTORS AND ADVISERS

Management Body

Christodoulos Patsalides, Chairman, Non-Executive

Andreas Hadjikyrou, Vice Chairman, Non-Executive

Avgoustinos Papathomas, Senior Independent, Non-Executive

Stalo Koumidou, Non-Executive

Konstantinos Mitropoulos, Non-Executive

Christodoulos Plastiras, Non-Executive

Dimitrios P. Sioufas, Non-Executive

Demetris Sparsis, Non-Executive

Loucas Marangos, Executive

Stella Avraam, Executive

Chief Executive Officer

Loucas Marangos

Secretary

Maria Agathokleous

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

Deloitte Limited

Registered office

50, Arch. Makarios III Avenue

Alpha House

1065 Nicosia

INTERIM MANAGEMENT REPORT

The Interim Condensed Consolidated Financial Statements ("Financial Statements") for the six-month period ended 30 June 2024 comprise of the Financial Statements of The Cyprus Development Bank Public Company Limited ("the Bank") and its subsidiary companies, which together are referred to as the Group.

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 and details of acquisitions and disposals made during the period are presented in note 17 to the Interim Consolidated Financial Statements.

FINANCIAL RESULTS

The results of the Group are set out in the Interim Consolidated Income Statement on page 13.

Income Statement Analysis

Total net income

Total net income for the period ended 30 June 2024 has remained stable at €11,7 million compared to €11,6 million for the period ended 30 June 2023, as analysed below:

Net interest income

Gross interest income for the period ended 30 June 2024 increased by €2,3 million yoy, from €10,7 million to €12,9 million, a 21% increase primarily driven by the repricing of liquid assets at higher interest rates. This increase in interest income was offset by a significant increase in interest expenses, which increased by 454% yoy, from €648 thousand for the period ended 30 June 2023 to €2,9 million for the period ended 30 June 2024 due to repricing of deposits at higher interest rates and the payment of coupon on the AT1 Capital which became payable this year as the capital ratios of the bank exceeded the threshold defined in the AT 1 terms for payment of interest (Note 22: Loan capital). As a result of the above, net interest income (NII) for the period ended 30 June 2024 remained stable at €10,0 million (30 June 2023: €10,0 million).

Non-interest income

Net non-interest income for the six-month period ended 30 June 2024 amounted to €1.716 thousand, increased by 11,8% compared to €1.535 thousand for the six-month period ended 30 June 2023. Non-interest income for the six-month period comprised of net fee and commission income of €1.432 thousand (30 June 2023: €1.449 thousand), net foreign exchange gains of €46 thousand (30 June 2023: €20 thousand losses) and other income of €238 thousand (30 June 2023: €106 thousand).

Net fee and commission income for the six-month period ended 30 June 2024 was €1.432 thousand, a decrease of 1% compared to €1.449 thousand for the corresponding period of 2023. The decrease is mainly attributed to a smaller volume of activity from brokerage fees and commissions.

Net foreign exchange gains for the six-month period ended 30 June 2024 amounted to €46 thousand, compared to losses of €20 thousand for the corresponding period of 2023, the increase driven mainly by exchange gains on the revaluation of open currency positions as at 30 June 2024.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Non-interest income (continued)

Other income for the six-month period ended 30 June 2024, amounted to €238 thousand compared to €106 thousand for the corresponding period of 2023, up by 125%. Other income relates mainly to rental income from REOs, profit/(loss) from disposal of stock of property and dividend income.

Expenses

Total expenses for the period ended 30 June 2024 amounted to €7,3 million, compared to €6,7 million for the period ended 30 June 2023, up by 8,5%. Total expenses for the 6-month period ended 30 June 2024 consist of 64% staff costs (€4,6 million), 25% other operating expenses (€1,9 million), 6% special levy on deposits and other levies/contributions (€0,42 million) and 5% depreciation (€0,35 million).

Group staff costs for the six-month period ended 30 June 2024 amounted to €4,6 million compared to €4,2 million for the period ended 30 June 2023, an increase of 10,7% driven by staff increments defined by collective agreements with the Cyprus Union of Bank Employees, increase of cost of living allowance (COLA) and increase of Social Insurance contributions.

The Group's total other operating expenses for the six-month period ended 30 June 2024 amounted to €1,9 million, an increase of 9,4% compared to €1,7 million for the corresponding period of 2023. The increase is mainly driven by higher marketing, subscriptions and donations and IT related expenses.

Special levy on deposits and other levies/contributions for the period ended 30 June 2024 amounted to €425 thousand compared to €438 thousand for the period ended 30 June 2023, down by 3%, mainly driven by lower contributions to the Deposit Guarantee Fund and the non-collection of contributions in 2024 by the Single Resolution Fund.

The **cost to income ratio**, excluding special levy on deposits and other levies/contributions for the six-month period ended 30 June 2024 was 58% compared to 54% for the period ended 30 June 2023, up by 4 percentage points. The increase is mainly driven by higher staff costs and operating expenses.

Profit before provisions for impairment

Pre-provisions profit amounted to €4,4 million for the six months ended 30 June 2024, down by 9% yoy, the decrease driven mainly by higher interest expenses and operating expenses as detailed above.

Provisions for impairment

For the six-month period ended 30 June 2024, the Group performed normal adjustments to the ECL amount calculated at the year-end exercise but did not perform a revised ECL calculation.

The Group's total provisions for impairment for the six-month period ended 30 June 2024 amounted to €556 thousand and related to impairment of loans and advances (30 June 2023: €774 thousand).

Taxation

The Group's tax charge for the six months ended 30 June 2024 amounted to €404 thousand compared to €9 thousand for the same period of 2023 where tax losses from previous years were utilised against the profits recorded in the period.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Profit after tax

After tax profit for the six-month period ended 30 June 2024 amounted to €3,5 million, down by 15% yoy, the decrease driven mainly by higher interest expense and operating expenses as well as higher tax charge as detailed above.

Return on average equity

Return on average equity on an annualised basis amounted to 14,6% for the six months ended 30 June 2024 (30 June 2023: 20,3%).

Statement of Financial Position Analysis

As at 30 June 2024, the Group's total assets amounted to €562 million, broadly flat compared to €558 million as at 31 December 2023.

The Group Financial Position is set out in the Interim Consolidated Statement of Financial Position on page 15.

Liquidity

As at 30 June 2024, the Group Liquidity Coverage Ratio ("LCR") stood at 361% (31 December 2023: 355%), well above the regulatory minimum requirement of 100%.

The liquidity surplus in LCR at 30 June 2024 amounted to €244 million (31 December 2023: €241 million).

As at 30 June 2024, the Group Net Stable Funding Ratio ("NSFR") stood at 253% (31 December 2023: 252%), with the minimum regulatory requirement at 100%.

Liquid assets

The Group's carrying value of liquid assets amounted to €350 million at 30 June 2024 compared to €348 million at 31 December 2023. Liquid assets represent 62% of the total assets of the Group as at 30 June 2024 (31 December 2023: 62%) and comprise of €316 million cash and balances with Central Bank (31 December 2023: €300 million), €2 million balances with other banks (31 December 2023: €2 million) and €32 million investments in debt securities (31 December 2023: €45 million).

Loans and advances to customers

The Group's gross loans and advances as at 30 June 2024 amounted to €212 million, broadly flat compared to €210 million as at 31 December 2023, reflecting resolutions of non-performing exposures and prepayments of a number of loans.

The Bank remains focused on the growth of its loan portfolio, placing emphasis on catering to the needs of corporate clients.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Loans and advances to customers (continued)

Loan portfolio quality

Effective management of the non-performing portfolio remains a top priority for the Group. During the 6-month period ended 30 June 2024, gross NPEs remained flat at €41 million, with the sum of repayments, DFAS, foreclosures and NPE outflows of €5,2 million being offset by inflows of €3,8 million and interest of €1,6 million. Despite the inflows the Group was within its NPE target for Q2-2024 as this was set in the NPE Strategy for 2024-2026. On a net basis, NPEs as at 30 June 2024 stood at €23 million compared to €24 million as at 31 December 2023, a decrease of 3%. NPE ratio on a gross basis stood at 19,5% (31 December 2023: 19,6%) and on a net basis stood at 12,1% (31 December 2023: 12,6%).

Stock of property

During the six-month period ended 30 June 2024, the Group on-boarded properties with value of €343 thousand (31 December 2023: €3,1 million) and has signed agreements for the sale of two properties with total value of €2,5 million.

Deposits

Client deposits as at 30 June 2024 amounted to €487 million and remained relatively unchanged compared to 31 December 2023 (€489 million). Customer deposits accounted for 87% of total assets as at 30 June 2024 (31 December 2023: 88%) and net loans to deposit ratio stood at 39% (31 December 2023: 39%).

Loan capital

At 30 June 2024, the Group's loan capital (including accrued interest) amounted to €11,3 million (31 December 2023: €11,3 million) and relates to an Unsecured Perpetual Subordinated Note of €5 million (31 December 2023: €5 million) which qualifies for classification as Additional Tier 1 Capital, and Subordinated Tier 2 Bonds of €6,3 million (31 December 2023: €6,3 million) which qualifies for classification as Tier 2 Capital.

Details about loan capital are disclosed in note 22 to the Interim Consolidated 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.

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group. 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.

Total equity excluding non-controlling interests amounted to €49,2 million as at 30 June 2024 compared to €45,7 million as at 31 December 2023, the increase relating mainly to unaudited profits for the six-month period ended 30 June 2024.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Capital base (continued)

The Group's CET1 ratio as at 30 June 2024 stood at 22,31% (31 December 2023: 20,56%), 11,22 percentage points above the minimum regulatory CET 1 ratio of 11,09%. The Overall Capital Ratio (OCR) as at 30 June 2024 stood at 27,47% (31 December 2023: 25,68%), 10,47 percentage points above the minimum regulatory OCR of 17,00%. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimise capital usage and maintain capital ratios above minimum requirements.

CET 1 capital amounted to €48,7 million as at 30 June 2024, up by 7,7% compared to €45,2 million as at 31 December 2023. The CET 1 and OCR ratios benefited from organic capital generation due to the period's profitability, positive valuation adjustments through OCI, and a slight reduction in risk weighted assets.

Throughout this Interim Management Report, the regulatory capital ratios as at 30 June 2024 include unaudited profits for the six months ended 30 June 2024.

Details of the capital base and capital adequacy of the Group are disclosed in note 27.5 to the Interim Consolidated 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 12 months from the date of approval of these Interim Consolidated Financial Statements.

The Directors have considered the conditions that existed during 2024 and the developments up to the date of approval of these Consolidated Financial Statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, liquidity, capital requirements and capital resources taking into consideration the Group Business Plan for 2024-2026 approved by the Board in November 2023 (the "Plan") and the operating environment (as set out in Note 32). The Plan has used conservative economic inputs to develop the Group's medium term strategy and incorporates sensitivity scenarios to cater for downside risk and assesses how possible changes in some of the underlying assumptions used in the projections (higher risk weights, lower level of lending, outflows of deposits, lower margins on loans and higher cost of deposits), could impact the projected financial performance of the Group and its capital adequacy and liquidity. The Board and Management have paid particular attention to the challenges and uncertainties stemming from the macroeconomic developments (as set out in Note 32 - Operating environment) that may affect the application of the principle.

INTERIM MANAGEMENT REPORT (continued)

GOING CONCERN (continued)

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 361% on 30 June 2024, well above the minimum requirement of 100% (31 December 2023: 355%).
- The liquidity surplus in LCR at 30 June 2024 amounted to €244 million (31 December 2023: €241 million).
- The Group holds significant liquidity buffers that can be monetised in a period of stress.

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 30 June 2024 stood at 22,31% (31 December 2023: 20,56%), 11,22 percentage points above the minimum regulatory CET 1 ratio of 11,09%. The Overall Capital Ratio ("OCR") as at 30 June 2024 stood at 27,47% (31 December 2023: 25,68%), 10,47 percentage points above the minimum regulatory OCR of 17,00%. 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 30 June 2024 was in compliance with regulatory capital requirements having adequate buffers.
- Based on the Bank's approved Business Plan all capital ratios are maintained above regulatory capital requirements for the period of assessment (including Pillar 2 Guidance and MREL add-on based on final target). The Board of Directors taking into consideration all available information, expects that the Group will be able to meet its capital requirements for the period of assessment.

Non-performing exposures ("NPEs")

Effective management of the non-performing portfolio remains a top priority for the Group. During the 6 months period ended 30 June 2024, gross NPEs remained flat at €41 million, with the sum of repayments, DFAS, foreclosures and NPE outflows of €5,2 million being offset by inflows of €3,8 million and interest of €1,6 million. Despite the inflows the Group was within its NPE target for Q2-2024 as this was set in the NPE Strategy for 2024-2026. On a net basis, NPEs as at 30 June 2024 stood at €23 million compared to €24 million as at 31 December 2023, a decrease of 3%. The NPE ratio on a gross basis stood at 19,5% (31.12.2023: 19,6%) and on a net basis stood at 12,1% (31.12.2023: 12,6%).

INTERIM MANAGEMENT REPORT (continued)

GOING CONCERN (continued)

The implementation of actions stipulated in the Bank's NPE strategy are carefully monitored, and recovery strategies and action plans are frequently reviewed and if necessary revised based on developments and results in order to promptly introduce corrective actions. At the same time the quality of the performing lending portfolio is being closely monitored.

Based on their assessment as above, the Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group and the Bank to continue to operate as a going concern for a period of 12 months from the date of approval of these Interim Consolidated Financial Statements.

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 27 to the Interim Consolidated Financial Statements. In addition, in relation to legal risk arising from litigations, further information is disclosed in note 31 to the Interim Consolidated Financial Statements.

SHAREHOLDERS

The shareholding structure as at 30 June 2024 is presented in note 29 to the Interim Consolidated Financial Statements.

CAPITAL MANAGEMENT

At 30 June 2024 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 11,09% (31 December 2023: 10,59%) and an Overall Capital Ratio ("OCR") of 17,00% (31 December 2023: 16,50%).

The Group's CET 1 and OCR as at 30 June 2024 stood at 22,31% and 27,47% respectively. Capital ratios include unaudited profits for the six-month period ended 30 June 2024.

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 27.5 to the Interim Consolidated Financial Statements.

STRATEGY AND PRIORITIES

The Group's medium-term strategic objectives remain focused on strengthening its balance sheet, improving the quality and efficiency of its assets, further strengthening its capital base, and increasing operating profitability. To achieve this the Group remains committed to the prudent expansion of its loan portfolio, which will raise both interest and fee income and the diversification of income streams from fee-generating activities. At the same time the maintenance of robust capital and liquidity ratios continues to be a top priority for the Group.

INTERIM MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

The effective management of non performing exposures remains a key concern for the Group. In its NPE Plan for 2024, Management has formulated a resolution action plan defining the resolution strategy for each major NPE exposure with the main objective being the minimisation of the resolution period to the extend possible. The NPE Plan for 2024 is being implemented and when necessary is reviewed and re-calibrated to take into account developments affecting the resolution of NPEs.

The growth of its loan book with the extension of good quality lending remains a top priority for the Group. Specialised in the area of SME and Corporate Lending the Bank aims to exploit its long history, knowledge and expertise in this market, providing products that satisfy the needs of its clientele ensuring high quality new lending via strict underwriting standards. At the same time the Bank monitors closely the quality of its loan portfolio and engages actively with its customers, especially those affected most by the higher costs of servicing loans.

The Group's balance sheet is very liquid with 62% of its assets held as cash, balances with Central Bank and other banks and fixed income portfolio. The Group manages prudently its liquid assets and is closely monitoring market developments with a view to gradually deploy excess liquidity in fixed income securities.

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. Management monitors closely its deposit base along with market developments regarding cost of deposits.

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

The Group continues to invest in upgrading its technological infrastructure and systems that support the implementation of its business strategy. Main actions include upgrading of the core banking system, introduction of peripheral systems to enhance automation of processes and the enhancement of digital channels.

Continued emphasis is also placed on ensuring the effectiveness of the Bank's risk management and compliance frameworks through prudent risk policies and measures designed to identify, assess and mitigate potential risks that could impact the Bank's operations and financial position. At the same time the Group is focused on enhancing its organisational resilience supported by an effective corporate governance aligned with the Group's priorities.

BRANCHES

The Group carries out its activities through its head office and two branches, one in Nicosia and one in Limassol.

MANAGEMENT BODY

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


INTERIM MANAGEMENT REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with the relative legislation and the regulations of the Cyprus Stock Exchange, each of the Directors, whose names and functions are listed on page 3 confirms that to the best of each person's knowledge and belief:

- The interim unaudited financial statements of the Group have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the provisions of the Law.
- The interim unaudited financial statements of the Group provide a true and fair view of the assets and liabilities, the financial position and profit and loss of the Group.
- The interim unaudited financial statements of the Group provide a true and fair view of the developments and the performance as well as the financial position of the Group, together with a description of the main risks and uncertainties, faced by the Group.

By the order of the Management Body



Christodoulos Patsalides
Chairman

Nicosia, 24 September 2024

INTERIM CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2024

	Note	Six months ended 30 June	
		2024 €'000	2023 €'000
Turnover		<u>14.793</u>	<u>12.408</u>
Interest income calculated using the effective interest method	5	12.921	10.673
Interest expense calculated using the effective interest method	6	<u>(2.941)</u>	<u>(648)</u>
Net interest income		9.980	10.025
Fee and commission income	7	1.588	1.648
Fee and commission expense	8	(156)	(199)
Net foreign exchange gains/(losses)	9	46	(20)
Other income	10	<u>238</u>	<u>106</u>
Total net income		11.696	11.560
Staff costs	11	(4.619)	(4.174)
Other operating expenses	12	(1.865)	(1.704)
Special levy on deposits and other levies/contributions	12	(425)	(438)
Depreciation		<u>(353)</u>	<u>(377)</u>
Profit before provisions for impairment		4.434	4.867
Provisions for impairment		<u>(556)</u>	<u>(774)</u>
Profit after provisions for impairment		3.878	4.093
Share of loss from associates		<u>-</u>	<u>(1)</u>
Profit before tax		3.878	4.092
Tax		<u>(404)</u>	<u>(9)</u>
Profit for the period after tax		<u>3.474</u>	<u>4.083</u>
Profit for the period attributable to:			
Owners of the Bank		3.469	4.089
Non-controlling interests		<u>5</u>	<u>(6)</u>
Profit for the period		<u>3.474</u>	<u>4.083</u>
Basic and fully diluted earnings per share (cent)	13	<u>8,02</u>	<u>9,45</u>

The notes on pages 19 to 83 form an integral part of the financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2024

	Six months ended 30 June	
	2024	2023
Note	€'000	€'000
Profit for the period	3.474	4.083
Other comprehensive income (OCI)		
Items that are or may be reclassified in the consolidated income statement in subsequent periods		
Fair value reserve (debt instruments)		
Net gains on investments in debt instruments measured at fair value through OCI (FVOCI)	16 <u>24</u>	<u>20</u>
Total OCI that may be reclassified in the consolidated income statement in subsequent periods	24	20
Other comprehensive income for the period net of taxation	24	20
Total comprehensive income for the period	3.498	4.103
Attributable to:		
Owners of the Bank	3.493	4.109
Non-controlling interests	<u>5</u>	<u>(6)</u>
Total comprehensive income for the period	3.498	4.103

The notes on pages 19 to 83 form an integral part of the financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024


	Note	30 June 2024 €'000	31 December 2023 €'000
ASSETS			
Cash and balances with central banks	14	315.576	300.407
Balances with other banks	14	2.341	2.356
Investments in debt securities	16	32.220	45.356
Loans and advances	15	191.499	190.484
Investments in equities		411	346
Investments in associates	18	747	744
Stock of property	19	8.916	8.579
Receivables and other assets		2.815	2.201
Premises and equipment		6.652	6.746
Intangible assets		691	593
Total assets		561.868	557.812
LIABILITIES			
Bank borrowings		1.710	1.921
Client deposits	20	486.665	489.423
Deferred taxation		314	314
Accruals and other liabilities	21	12.428	8.968
Loan capital	22	11.262	11.261
Total liabilities		512.379	511.887
EQUITY			
Share capital	23	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	14.653
Reserves		9.877	6.328
Equity attributable to owners of the parent company		49.233	45.684
Non-controlling interests		256	241
Total equity		49.489	45.925
Total liabilities and equity		561.868	557.812
Contingent liabilities and commitments	24	50.271	58.011

These Interim Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 24 September 2024.


Mr. Christodoulos Patsalides
 Chairman of the Board


Mr. Avgoustinos Papathomas
 Member of the Board


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


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

The notes on pages 19 to 83 form an integral part of the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2024

2024	Attributable to the parent company's owners					Total €'000	Non- controlling interests €'000	Total €'000
	Share capital €'000	Share premium €'000	Capital reduction reserve fund €'000	Revaluation reserve €'000	Revenue reserve €'000			
Balance 1 January 2024	8.655	16.048	14.653	1.898	4.430	45.684	241	45.925
Correction in opening balance of subsidiaries reserves	-	-	-	-	56	56	10	66
Restated balance 1 January 2024	<u>8.655</u>	<u>16.048</u>	<u>14.653</u>	<u>1.898</u>	<u>4.486</u>	<u>45.740</u>	<u>251</u>	<u>45.991</u>
Total comprehensive income after taxation								
Profit for the period	-	-	-	-	3.469	3.469	5	3.474
Other comprehensive income	-	-	-	24	-	24	-	24
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>24</u>	<u>3.469</u>	<u>3.493</u>	<u>5</u>	<u>3.498</u>
Transfers between reserves								
Excess depreciation on revaluation surplus	-	-	-	(3)	3	-	-	-
Total transfers between reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance 30 June 2024	<u><u>8.655</u></u>	<u><u>16.048</u></u>	<u><u>14.653</u></u>	<u><u>1.919</u></u>	<u><u>7.958</u></u>	<u><u>49.233</u></u>	<u><u>256</u></u>	<u><u>49.489</u></u>

The notes on pages 19 to 83 form an integral part of the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2024

	Attributable to the parent company's owners					Total €'000	Non- controlling interests €'000	Total €'000
	Share capital €'000	Share premium €'000	Capital reduction reserve fund €'000	Revaluation reserve €'000	Revenue reserve €'000			
2023								
Balance 1 January 2023	8.655	16.048	14.653	1.629	(2.755)	38.230	199	38.429
Correction in opening balance of subsidiaries reserves	-	-	-	-	183	183	33	216
Restated balance 1 January 2023	<u>8.655</u>	<u>16.048</u>	<u>14.653</u>	<u>1.629</u>	<u>(2.572)</u>	<u>38.413</u>	<u>232</u>	<u>38.645</u>
Total comprehensive income/(loss) after taxation								
Profit/(loss) for the period	-	-	-	-	4.089	4.089	(6)	4.083
Other comprehensive income	-	-	-	20	-	20	-	20
Total comprehensive income/(loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>	<u>4.089</u>	<u>4.109</u>	<u>(6)</u>	<u>4.103</u>
Transfers between reserves								
Excess depreciation on revaluation surplus	-	-	-	(8)	8	-	-	-
Total transfers between reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8)</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance 30 June 2023	<u><u>8.655</u></u>	<u><u>16.048</u></u>	<u><u>14.653</u></u>	<u><u>1.641</u></u>	<u><u>1.525</u></u>	<u><u>42.522</u></u>	<u><u>226</u></u>	<u><u>42.748</u></u>

The notes on pages 19 to 83 form an integral part of the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2024

	Note	Six-month period ended 30 June	
		2024 €'000	2023 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group profit for the period		3.474	4.083
<i>Adjustments for:</i>			
Net interest from debt securities		(277)	(623)
Premium/discount amortisation on debt securities		362	390
Interest on loan capital	6	567	221
Depreciation of premises and equipment		218	221
Amortisation of intangible assets		135	156
Net foreign exchange gains		(32)	50
Provisions for impairment		556	774
Interest expense on lease liability	6	21	12
Gain on revaluation of investments at FVTPL		(19)	(11)
Share of loss from associate		-	1
Tax		404	9
		<u>5.409</u>	<u>5.283</u>
<i>Change in:</i>			
Obligatory balances with Central Bank		(133)	(295)
Loans and advances		(1.582)	5.782
Client deposits		(2.758)	1.226
Bank borrowings		(211)	(211)
Working capital and other items of the statement of financial position		<u>2.187</u>	<u>7.506</u>
Net cash from operating activities before tax		2.912	19.291
Taxes and special contributions paid		-	(9)
Net cash from operating activities		<u>2.912</u>	<u>19.282</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment		(125)	(170)
Acquisition of intangible assets		(233)	(133)
Acquisition of debt securities	16	-	(17.860)
Proceeds on redemption of debt securities	16	12.811	57.771
Net interest from debt securities		277	623
Net cash from investing activities		<u>12.730</u>	<u>40.231</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Principal element of lease payments		(87)	(89)
Interest paid on loan capital		(566)	(221)
Net cash to financing activities		<u>(653)</u>	<u>(310)</u>
Net increase in cash and cash equivalents		14.989	59.203
Effect of exchange rate fluctuations on cash and cash equivalents		32	(30)
Cash and cash equivalents at the beginning of the period		<u>298.077</u>	<u>218.056</u>
Cash and cash equivalents at the end of the period	26	<u>313.098</u>	<u>277.229</u>

The notes on pages 19 to 83 form an integral part of the financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

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 “cbbank” and is the parent company of the cbbank 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.

Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements of the Group for the six-month period ended 30 June 2024 were authorised for issue by the Board of Directors on 24 September 2024.

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 12 months from the date of approval of these Interim Consolidated Financial Statements.

The Directors have considered the conditions that existed during 2024 and the developments up to the date of approval of these Consolidated Financial Statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, liquidity, capital requirements and capital resources taking into consideration the Group Business Plan for 2024-2026 approved by the Board in November 2023 (the “Plan”) and the operating environment (as set out in Note 32). 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 (higher risk weights, lower level of lending, outflows of deposits, lower margins on loans and higher cost of deposits), could impact the projected financial performance of the Group and its capital adequacy and liquidity. The Board and Management have paid particular attention to the challenges and uncertainties stemming from the macroeconomic developments (as set out in Note 32 - Operating environment) that may affect the application of the principle.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

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 361% on 30 June 2024, well above the minimum requirement of 100% (31 December 2023: 355%).
- The liquidity surplus in LCR at 30 June 2024 amounted to €244 million (31 December 2023: €241 million).
- The Group holds significant liquidity buffers that can be monetised in a period of stress.

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 30 June 2024 stood at 22,31% (31 December 2023: 20,56%), 11,22 percentage points above the minimum regulatory CET 1 ratio of 11,09%. The Overall Capital Ratio ("OCR") as at 30 June 2024 stood at 27,47% (31 December 2023: 25,68%), 10,47 percentage points above the minimum regulatory OCR of 17,00%. 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 30 June 2024 was in compliance with regulatory capital requirements having adequate buffers.
- Based on the Bank's approved Business Plan all capital ratios are maintained above regulatory capital requirements for the period of assessment (including Pillar 2 Guidance and MREL add-on based on final target). The Board of Directors taking into consideration all available information, expects that the Group will be able to meet its capital requirements for the period of assessment.

2.1.3 Non-performing exposures ("NPEs")

Effective management of the non-performing portfolio remains a top priority for the Group. During the 6 months period ended 30 June 2024, gross NPEs remained flat at €41 million, with the sum of repayments, DFAS, foreclosures and NPE outflows of €5,2 million being offset by inflows of €3,8 million and interest of €1,6 million. Despite the inflows the Group was within its NPE target for Q2-2024 as this was set in the NPE Strategy for 2024-2026. On a net basis, NPEs as at 30 June 2024 stood at €23 million compared to €24 million as at 31 December 2023, a decrease of 3%. The NPE ratio on a gross basis stood at 19,5% (31 December 2023: 19,6%) and on a net basis stood at 12,1% (31 December 2023: 12,6%).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.3 Non-performing exposures (NPEs) (continued)

The implementation of actions stipulated in the Bank's NPE strategy are carefully monitored, and recovery strategies and action plans are frequently reviewed and if necessary revised based on developments and results in order to promptly introduce corrective actions. At the same time the quality of the performing lending portfolio is being closely monitored.

Based on their assessment as above, the Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group and the Bank to continue to operate as a going concern for a period of 12 months from the date of approval of these Interim Consolidated Financial Statements.

2.2 Statement of compliance

The Interim Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34).

The Interim Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the Annual Consolidated Financial Statements of The Cyprus Development Bank Public Company Limited for the year ended 31 December 2023, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, which are available at the Bank's website www.cdb.com.cy.

2.3 Unaudited financial statements

The Interim Consolidated Financial Statements ("Financial Statements") for the six-month period ended 30 June 2024 have not been audited by the Group's external auditors.

2.4 Basis of measurement

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

2.5 New and amended International Financial Reporting Standards ("IFRSs") and interpretations

As from 1 January 2024, the Group adopted all the changes to International Financial Reporting Standards ("IFRSs") as adopted by the EU which are relevant to its operations.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

2. BASIS OF PREPARATION (continued)

2.5 New and amended International Financial Reporting Standards ("IFRSs") and interpretations (continued)

IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants"

Under the amendments to IAS 1 Presentation of Financial Statements the classification of certain liabilities as current or non-current may change. In addition, companies may need to provide new disclosures for liabilities subject to covenants. A liability will be classified as non-current if there is a right to defer its settlement for at least 12 months after the reporting date. This right may be subject to complying with conditions (covenants) specified in a loan arrangement. Only covenants on or before the reporting date affect the classification of a liability as current or non-current. When non-current liabilities are subject to future covenants, information will need to be disclosed to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The amendments also clarify how a liability that can be settled in its own shares (e.g. convertible debt) should be classified. When a liability includes a counterparty conversion option that involves a transfer of own equity instruments, the conversion option is recognised as either equity or a liability separately from the host liability under IAS 32 Financial Instruments: Presentation. When the host liability is classified as current or non-current, only the conversion options recognised as equity can be ignored. Based on the Group's current business activities, amendments to IAS 1 did not have a material impact on the Group's interim financial statements.

IFRS 16 "Leases: Lease Liability in a Sale and Leaseback"

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and requires seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019. The amendments confirm that, on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction and that, after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains. The amendments did not have a material impact on the Group's interim financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

2. BASIS OF PREPARATION (continued)

2.5 New and amended International Financial Reporting Standards ("IFRSs") and interpretations (continued)

IAS 7 "Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements"

The amendments made with the aim to promote transparency of supplier finance arrangements' impacts on the financial statements, introduce additional disclosure requirements in relation to these arrangements. The amendments introduce two new disclosure objectives - one in IAS 7 and another in IFRS 7 - for information to be provided about supplier finance arrangements that would enable users to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. Under the amendments, the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement need to be disclosed. The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in IFRS 7 on factors a company might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities. Neither of these amendments had a material impact on the Group's interim financial statements.

2.5.1 Amendments issued but not yet adopted by the European Union

IFRS 18 "Presentation and Disclosure in Financial Statements" (new standard)

The aim of the amendments is to provide greater consistency in presentation of the income and cash flow statements as well as more disaggregated information. The way results are presented on the face of the income statement and information is disclosed in the notes of the financial statements will change. Also, certain non-GAAP measures – management performance measures (MPMs) – will now form part of the audited financial statements. IFRS 18 promotes a more structured income statement by introducing a newly defined 'operating profit' subtotal and a requirement for all income and expenses to be classified into three new distinct categories based on the main business activities. Operating expenses will need to be analysed directly on the face of the income statement, either by nature, function or on a mixed basis. IFRS 18 will require the use of 'non-GAAP' measures to be reported in the financial statements, with each MPM presented to be supported in a single note in the financial statements which explains why the measure provides useful information and how it is calculated, reconciled to an amount determined under IFRS Accounting standards. The new standard also includes enhanced guidance on how information is grouped in the financial statements, including guidance on whether material information is included in the primary financial statements or is further disaggregated in the notes. The labelling of items as 'other' is discouraged. The Group is currently evaluating the impact of adopting these amendments on the consolidated financial statements. The amendments have yet to be endorsed by the EU.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

2. BASIS OF PREPARATION (continued)

2.5 New and amended International Financial Reporting Standards ("IFRSs") and interpretations (continued)

2.5.1 Amendments issued but not yet adopted by the European Union (continued)

IFRS 19 "Subsidiaries without Public Accountability: Disclosures" (new standard)

A subsidiary that does not have public accountability and has a parent that produces consolidated accounts under IFRS Accounting Standards, is permitted to apply IFRS 19. IFRS 19 offers eligible subsidiaries a practical way of addressing the problems of over-disclosure while reducing their reporting costs - removing the need to either provide disclosures beyond users' needs or to maintain two separate sets of accounting records. Eligible subsidiaries can choose to apply the standard for reporting periods beginning on or after 1 January 2027, with earlier application permitted. The amendments will not have a material impact on the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

Annual Improvements to IFRS Accounting Standards — Volume 11

The amendments contained in the Annual Improvements relate to:

- (i) IFRS 1 First-time Adoption of International Financial Reporting Standards - Hedge Accounting a First-time Adopter
- (ii) IFRS 7 Financial Instruments: Disclosures and its accompanying Guidance on implementing IFRS7
- (iii) IFRS 9 Financial Instruments - Derecognition of lease liabilities and Transaction price
- (iv) IFRS 10 Consolidated Financial Statements - Determination of a 'de facto agent'
- (v) IAS 7 Statement of Cash Flows - Cost Method.

These amendments will be effective for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted. The Group will be assessing the impact that these amendments might have on its results and financial position.

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

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2024. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards, Amendments and Interpretations early.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

2. BASIS OF PREPARATION (continued)

2.5 New and amended International Financial Reporting Standards ("IFRSs") and interpretations (continued)

2.5.2 Standards, Amendments and Interpretations issued but not yet effective and not early adopted (continued)

IAS 21 "The effects of Changes in Foreign Exchange Rates: Lack of Exchangeability"

Under IAS 21, when translating a foreign currency transaction, a spot exchange rate is used. However, in rare cases there may be lack of exchangeability, meaning that one currency cannot be exchanged into another. This could arise with government-imposed controls on capital imports and exports, for example when an official exchange rate is provided but the volume of foreign currency transactions that can be undertaken at that rate is limited. Consequently, market participants are unable to buy and sell currency to meet their needs at the official exchange rate and turn instead to unofficial, parallel markets. As per amended IAS 21, a currency is exchangeable into another currency when a company is able to exchange that currency for the other currency at the measurement date and for a specified purpose. When a currency is not exchangeable, a company needs to estimate a spot rate by using an observable exchange rate without adjustment or another estimation technique. The amended IAS 21 notes what should be considered when using an observable exchange rate. New disclosures will need to be provided to help users assess the impact on the financial statements of using an estimated exchange rate and could include disclosures on the nature and financial impacts of the currency not being exchangeable; the spot exchange rate used; the estimation process and risks because of the currency not being exchangeable. The amendments apply for annual reporting periods beginning on or after 1 January 2025. The amendments will not have a material impact on the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

IFRS 9 and IFRS 7 "Classification and Measurement of Financial Instruments"

As the global market for some financial assets with ESG-linked features assets is growing rapidly, the International Accounting Standards Board (IASB) has amended IFRS 9 with the amendments including guidance on the classification of financial assets, including those with contingent features. The IASB has also amended IFRS 7 so that now additional disclosures will need to be made in relation to financial assets and financial liabilities that have certain contingent features. Under IFRS 9, it was unclear whether the contractual cash flows of some financial assets with ESG-linked features represented SPPI, which is a condition for measurement at amortised cost. This could have resulted in financial assets with ESG-linked features being measured at fair value through profit or loss.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

2. BASIS OF PREPARATION (continued)

2.5 New and amended International Financial Reporting Standards ("IFRSs") and interpretations (continued)

2.5.2 Standards, Amendments and Interpretations issued but not yet effective and not early adopted (continued)

Although the new amendments are more permissive, they apply to all contingent features, not just ESG-linked features. While the amendments may allow certain financial assets with contingent features to meet the SPPI criterion, companies may need to perform additional work to prove this. Judgement will be required in determining whether the new test is met. The amendments introduce an additional SPPI test for financial assets with contingent features that are not related directly to a change in basic lending risks or costs – e.g. where the cash flows change depending on whether the borrower meets an ESG target specified in the loan contract. The amendments apply for reporting periods beginning on or after 1 January 2026 and are not expected to have a material impact on the Group's consolidated financial statements.

2.6 Fair value of financial assets and liabilities

The Group applies the definition of fair value as set out in note 25 to the Interim Consolidated Financial Statements. The Group includes disclosures in the financial statements, which are required under IFRS 13.

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

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

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

2.7 Functional and presentation currency

The financial statements of the Group are for the six-month period ended 30 June 2024 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.

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed for the preparation of the annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of new and amended standards and interpretations as explained in note 2.5 to the Interim Consolidated Financial Statements.

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 in relation to business models and future cash flows.

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

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

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Classification of financial assets (continued)

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 are presented in note 16 to the Interim Consolidated Financial Statements.

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 a significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated by the Group's Management and endorsed by the Bank's Risk Committee.

Determination of probability of default ("PD")

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

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors

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

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

The Group uses three different economic scenarios. The calculation of expected credit losses for both individually and collectively assessed exposures is the weighted average of three scenarios: baseline at 50% weight (2023: 50% weight), pessimistic at 30% weight (2023: 30% weight) and optimistic 20% weight (2023: 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

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

Cyprus Economy – Macroeconomic Parameters 31 December 2023

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

Assessment of loss given default ("LGD")

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Assessment of loss given default ("LGD") (continued)

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.

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

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

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

Sensitivity analysis

For the purposes of providing an indication of the change in accumulated impairment losses on loans and advances as a result of changes in key loan impairment assumptions, the Bank has performed a sensitivity analysis. The impact on the provisions for impairment of loans and advances as at 31 December 2023 is presented below:

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

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

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 Group uses valuation techniques that use observable market data, to the extent 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 16 and 25 to the Interim Consolidated Financial Statements.

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

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 19 to the Interim Consolidated Financial Statements.

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 17 and 18 to the Interim Consolidated Financial Statements.

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

The accounting policy for provisions for pending litigation, claims, regulatory and other matters is described in Note 3.28 of the Annual Consolidated Financial Statements of the Cyprus Development Bank Public Company Limited for the year ended 31 December 2023. Judgment is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigation, claims, regulatory and other matters usually require a high degree of judgement than other types of provisions. For a description of the nature of uncertainties and assumptions and the effect of the amount and timing of pending litigation, claims, regulatory and other matters refer in note 31 to the Interim Consolidated Financial Statements.

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Loans and advances at amortised cost	6.400	6.455
Balances with banks at amortised cost	6.244	3.595
Debt securities	277	623
	<u>12.921</u>	<u>10.673</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Bank borrowings	47	36
Client deposits	2.305	377
Balances with banks	1	2
Loan capital	567	221
Interest expense on lease liability	21	12
	<u>2.941</u>	<u>648</u>

7. FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Credit related fees and commissions	249	197
Fund transfer commissions	389	456
Other banking and brokerage fees and commissions	950	995
	<u>1.588</u>	<u>1.648</u>

8. FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Fund transfer fees and commissions	92	83
Banking related fees and commissions	44	80
Brokerage fees and commissions	20	32
Management and performance fees	-	4
	<u>156</u>	<u>199</u>

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 period.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

10. OTHER INCOME

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Dividend income	55	14
Profit/(loss) on revaluation of financial assets at FVTPL	19	(5)
Other income	164	97
	<u>238</u>	<u>106</u>

11. STAFF COSTS

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Salaries	3.750	3.407
Employer's contributions	574	506
Other staff benefits	2	1
Cost of retirement benefits	293	260
	<u>4.619</u>	<u>4.174</u>

The number of people employed by the Group as at 30 June 2024 was 137 (30 June 2023: 135).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2023: 9%) and employee contributions of 3% - 10% (2023: 3% - 10%) of the employees' gross salaries. The Bank's contributions are charged to the income statement.

The employees of Global Capital Securities and Financial Services Ltd are participating in the plan with employer contributions of 6% (2023: 6%) and employee contributions of 3% - 10% (2023: 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

12. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Consultancy and legal fees	212	195
Regulatory fees	162	121
IT related expenses	570	524
Marketing, subscriptions and donations	202	186
Utilities	130	152
Other operating expenses	589	526
	<u>1.865</u>	<u>1.704</u>

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

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Contribution to Deposit Guarantee Fund	51	69
Single Resolution Fund contribution	-	23
Special levy on deposits of credit institutions in Cyprus	374	346
	<u>425</u>	<u>438</u>

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

In February 2024, the SRB announced that no regular annual contributions will be collected in 2024 from the institutions falling in scope of the SRF and contributions would only be collected in the event of specific circumstances.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

13. BASIC AND DILUTED EARNINGS PER SHARE

	Six months ended 30 June	
	2024	2023
Basic and diluted profit per share		
Profit attributable to the owners of the parent company (€'000)	<u>3.469</u>	<u>4.089</u>
Weighted average number of shares in issue during the period ('000)	<u>43.276</u>	<u>43.276</u>
Basic and fully diluted profit per share (cent)	<u>8,02</u>	<u>9,45</u>

	Six months ended 30 June	
	2024	2023
Weighted average number of ordinary shares in issue		
Weighted average number of shares in issue during the period ('000)	<u>43.276</u>	<u>43.276</u>

14. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	30 June 31 December	
	2024	2023
	€'000	€'000
Cash	1.158	803
Balances with central banks	<u>314.418</u>	<u>299.604</u>
	<u>315.576</u>	<u>300.407</u>
Balances with other banks	2.342	2.357
Stage 1 – 12 month expected credit losses	<u>(1)</u>	<u>(1)</u>
	<u>2.341</u>	<u>2.356</u>

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.819 thousand (31 December 2023: €4.686 thousand) for the Group.

For cash and cash equivalents as per statement of cash flows, refer to note 26 to the Interim Consolidated 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 27 to the Interim Consolidated Financial Statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

15. LOANS AND ADVANCES

	30 June 2024 €'000	31 December 2023 €'000
Loans and advances	212.166	210.034
Changes to contractual cash flows due to modifications	(167)	(209)
Impairment losses individually assessed	(18.348)	(17.171)
Impairment losses collectively assessed	<u>(2.152)</u>	<u>(2.170)</u>
	<u>191.499</u>	<u>190.484</u>

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 27 to the Interim Consolidated Financial Statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

15. LOANS AND ADVANCES (continued)

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

	30 June 2024				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€'000	€'000	€'000	€'000	€'000
1 January	107.936	51.705	40.797	9.596	210.034
Transfers to stage 1	6.274	(6.274)	-	-	-
Transfers to stage 2	(14.391)	15.559	(1.168)	-	-
Transfers to stage 3	(86)	(993)	1.079	-	-
New loans originated	6.145	-	850	-	6.995
Loans derecognised or repaid	(3.596)	(3.346)	(4.624)	(296)	(11.862)
Write offs	-	-	(156)	-	(156)
Interest accrued and other adjustments	3.208	2.119	1.451	377	7.155
30 June	<u>105.490</u>	<u>58.770</u>	<u>38.229</u>	<u>9.677</u>	<u>212.166</u>

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

16. INVESTMENTS IN DEBT SECURITIES

	30 June 2024 €'000	31 December 2023 €'000
Securities at amortised cost		
Government bonds	27.472	37.610
Corporate bonds	4.748	4.705
	<u>32.220</u>	<u>42.315</u>
Securities at FVOCI		
Government bonds	-	3.041
	<u>32.220</u>	<u>45.356</u>

All debt securities are listed.

The movement of debt securities was as follows:

	30 June 2024 €'000	31 December 2023 €'000
Securities at amortised cost		
Balance at 1 January	42.355	85.246
Acquisitions	-	17.861
Maturities	(9.811)	(60.271)
Amortisation of discounts/premiums and interest	(296)	(481)
	<u>32.248</u>	<u>42.355</u>
Stage 1 - 12 month expected credit losses	(28)	(40)
Balance 30 June/ 31 December	<u>32.220</u>	<u>42.315</u>

	30 June 2024 €'000	31 December 2023 €'000
Securities at FVOCI		
Balance at 1 January	3.042	5.094
Maturities	(3.000)	(2.000)
Amortisation of discounts/premiums and interest	(66)	(108)
Mark to market valuation	24	56
	-	3.042
Stage 1 - 12 month expected credit losses	-	(1)
Balance 30 June/ 31 December	<u>-</u>	<u>3.041</u>

Additional analysis and information regarding market risk are set out in note 27 to the Interim Consolidated Financial Statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

17. SUBSIDIARY COMPANIES

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

	<u>Shareholding</u>		<u>Activities</u>
	30 June 2024 %	31 December 2023 %	
In Cyprus:			
Global Capital Limited	84,64	84,64	Portfolio management, provision of financial advisory and brokerage services

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

	<u>Shareholding</u>		<u>Activities</u>
	30 June 2024 %	31 December 2023 %	
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

At 30 June 2024 the Bank had 100% shareholding in the Cyprus registered Special Purpose Entities (SPEs) listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts.

- Tsemblerio Holding Limited
- Glumar Limited
- Welbon Limited
- Primesky Limited
- Starwiz Limited

Acquisition, dissolution and disposal of subsidiaries

There were no acquisitions or disposals of subsidiaries during the period ended 30 June 2024 and for the year ended 31 December 2023.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

18. INVESTMENTS IN ASSOCIATES

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

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective shareholding</u>		<u>Activities</u>
		30 June 2024 %	31 December 2023 %	
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.

19. STOCK OF PROPERTY

	30 June 2024	31 December 2023
	€'000	€'000
Stock of property	8.916	8.579
	<u>8.916</u>	<u>8.579</u>

The Bank in its normal course of business, as part of its non-performing exposures management, acquires properties in exchange of debt, which are held either directly or by Special Purpose Entities ("SPEs") set up and controlled by the Bank for the sole purpose of managing these properties with the intention to be disposed of.

The 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 the stock of property. For the six months period ended 30 June 2024 no impairment loss was recognized in the consolidated income statement (31 December 2023: €222 thousand).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

19. STOCK OF PROPERTY (continued)

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

	30 June 2024	31 December 2023
	€'000	€'000
Net book value 1 January	8.579	8.633
Additions	337	3.263
Disposal of stock of properties	-	(3.095)
Movement in impairment loss provision	-	(222)
Balance 30 June/ 31 December	<u>8.916</u>	<u>8.579</u>

20. CLIENT DEPOSITS

	30 June 2024	31 December 2023
	€'000	€'000
Demand deposits	265.603	275.361
Fixed-term or notice deposits	<u>221.062</u>	<u>214.062</u>
	<u>486.665</u>	<u>489.423</u>

21. ACCRUALS AND OTHER LIABILITIES

	30 June 2024	31 December 2023
	€'000	€'000
Accrued expenses and other liabilities	4.088	2.681
Items in the course of settlement	6.934	4.793
Deferred income	225	247
Lease liability	731	797
Provision for financial guarantees and commitments	<u>450</u>	<u>450</u>
	<u>12.428</u>	<u>8.968</u>

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

22. LOAN CAPITAL

	Contractual interest rate	30 June 2024		31 December 2023	
		Nominal value	Carrying value	Nominal value	Carrying value
Perpetual Unsecured Subordinated Note	13,75%	5.000	5.002	5.000	5.000
Subordinated Tier 2 Bonds	7,125%	<u>6.250</u>	<u>6.260</u>	<u>6.250</u>	<u>6.261</u>
		<u>11.250</u>	<u>11.262</u>	<u>11.250</u>	<u>11.261</u>

Perpetual Unsecured Subordinated Note

On 3rd August 2017, the Bank issued at par a €5.000.000 Perpetual Unsecured Subordinated Note to Bank of Cyprus Public Company Limited ("BoC"). On 28th December 2022 the Note was sold by BoC to Limondi Limited, a Cyprus-registered company. The interest rate on the Note is fixed at 13,75% per annum, payable semi-annually on 30th June and 31st December of each year. The payment of interest can be cancelled by the Bank (the Issuer) at its discretion, provided that at the time of such interest payment:

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

Any interest payment cancelled, as indicated above, shall not accumulate or be payable at any time thereafter. For the period ended 30 June 2024 the conditions for payment of interest were met, and consequently interest was 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

22. 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.

23. SHARE CAPITAL

	30 June 2024		31 December 2023	
	No. of shares	Share Capital €'000	No. of shares	Share Capital €'000
Authorised:				
Ordinary shares of €0,20 each	<u>704.849.584</u>	<u>140.970</u>	<u>704.849.584</u>	<u>140.970</u>
Issued and fully paid:				
Ordinary shares of NV €0,20 each	<u>43.275.979</u>	<u>8.655</u>	<u>43.275.979</u>	<u>8.655</u>
Total issued share capital	<u>43.275.979</u>	<u>8.655</u>	<u>43.275.979</u>	<u>8.655</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

24. 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 30 June 2024 and 31 December 2023 are as follows:

<i>Contingent liabilities</i>	30 June	31 December
	2024	2023
	€'000	€'000
Guarantees issued	<u>22.858</u>	<u>22.553</u>
<i>Commitments</i>	30 June	31 December
	2024	2023
	€'000	€'000
Documentary credits	854	542
Undrawn commitments for loans and advances granted to clients	14.878	23.292
Undrawn commitments for non-funded facilities	<u>11.681</u>	<u>11.624</u>
	<u>27.413</u>	<u>35.458</u>
Contingent liabilities and commitments	<u>50.271</u>	<u>58.011</u>

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 30 June 2024 amount to €614 thousand (31 December 2023: €73 thousand).

Contingent liabilities for material litigation

Details of material litigation of the Group are disclosed in note 31 to the Interim Consolidated Financial Statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

25. 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 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 and discounted cash flow methods. 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 uses the following hierarchy for determining and disclosing fair value:

- Level 1: financial instruments 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 period ended 30 June 2024 and year ended 31 December 2023, the Group did not make any transfers into and out of the fair value hierarchy levels.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

25. 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.

30 June 2024

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Equities		-	-	411	411
		-	-	411	411
Financial liabilities					
		-	-	-	-

31 December 2023

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVTPL		-	-	-	-
Equities		-	-	346	346
Investments at FVOCI		-	3,041	-	3,041
Debt securities	16	-	3,041	346	3,387
		-	3,041	346	3,387
Financial liabilities					
		-	-	-	-

There were no significant transfers between levels during the period ended 30 June 2024 and year ended 31 December 2023.

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.

30 June 2024

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises and equipment	-	-	5,575	5,575

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

25. FAIR VALUE (continued)

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

There were no significant transfers between levels during the period ended 30 June 2024 and year ended 31 December 2023.

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.

30 June 2024	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	315.576	-	315.576
Balances with other banks	-	2.341	-	2.341
Loans and advances	-	-	191.499	191.499
Debt securities at amortised cost	21.801	9.939	-	31.740
Investments in associates	-	-	210	210
	<u>21.801</u>	<u>327.856</u>	<u>191.709</u>	<u>541.366</u>
Financial liabilities				
Bank borrowings	-	-	1.710	1.710
Client deposits	-	-	486.665	486.665
Loan capital	-	-	11.262	11.262
Provision for financial guarantees and commitments	-	-	450	450
	<u>-</u>	<u>-</u>	<u>500.087</u>	<u>500.087</u>

There were no significant transfers between levels during the period ended 30 June 2024 and year ended 31 December 2023.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

25. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

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

There were no significant transfers between levels during the period ended 30 June 2024 and year ended 31 December 2023.

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

Investments in 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 of 30 June 2024 and 31 December 2023.

Balances with other banks

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

Loans and advances to customers

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

25. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

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.

26. CASH AND CASH EQUIVALENTS

	30 June 2024	31 December 2023
	€'000	€'000
Cash	1.158	803
Balances with central banks	309.599	294.918
Balances with other banks	<u>2.341</u>	<u>2.356</u>
	<u><u>313.098</u></u>	<u><u>298.077</u></u>

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

27. 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 formulates risk management policies to identify and analyse the risks faced by the Group, establishes suitable risk limits and control procedures, and continuously monitors these risks along with the Group's compliance with the set limits and controls. Risk management policies are regularly reviewed to adapt to changes in market conditions, products and services rendered.

27.1 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

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.

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Credit quality analysis

		30 June 2024				
Note	Stage 1	Stage 2	Stage 3	POCI	Total	
	€'000	€'000	€'000	€'000	€'000	
Balances with central banks and other banks						
	Aaa - Aa3	175	-	-	-	175
	A1 - A3	11	-	-	-	11
	Baa1 - Baa3	315.657	-	-	-	315.657
	Ba1 - Ba3	248	-	-	-	248
	Unrated	669	-	-	-	669
14		316.760	-	-	-	316.760
	Loss allowance	(1)	-	-	-	(1)
	Carrying amount	316.759	-	-	-	316.759
Loans and advances to customers at amortised cost - gross carrying amount						
	Grade 1-3: Low-medium risk	104.834	56.627	-	6.507	167.968
	Grade 4-5: Special mention	656	2.143	-	-	2.799
	Non-performing	-	-	38.229	3.170	41.399
15		105.490	58.770	38.229	9.677	212.166
	Loss allowance and changes to contractual cash flows due to modifications	(460)	(2.029)	(17.831)	(347)	(20.667)
15		105.030	56.741	20.398	9.330	191.499
Debt securities						
	Baa1 - Baa3	20.809	-	-	-	20.809
	Ba1 - Ba3	11.439	-	-	-	11.439
16		32.248	-	-	-	32.248
	Loss allowance	(28)	-	-	-	(28)
	Carrying amount	32.220	-	-	-	32.220
Financial guarantees and loan commitments						
	Gross amount	49.623	628	20	-	50.271
21		(448)	(1)	(1)	-	(450)
	Carrying amount	49.175	627	19	-	49.821

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Credit quality analysis (continued)

		31 December 2023				
Note	Stage 1	Stage 2	Stage 3	POCI	Total	
	€'000	€'000	€'000	€'000	€'000	
Balances with central banks and other banks						
Aaa - Aa3	2	-	-	-	2	
A1 - A3	1	-	-	-	1	
Baa1 - Baa3	300.855	-	-	-	300.855	
Ba1 - Ba3	517	-	-	-	517	
Unrated	586	-	-	-	586	
14	301.961	-	-	-	301.961	
Loss allowance	(1)	-	-	-	(1)	
Carrying amount	14	301.960	-	-	301.960	
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk	107.116	48.853	-	9.172	165.141	
Grade 4-5: Special mention	820	2.852	-	-	3.672	
Non-performing	-	-	40.797	424	41.221	
15	107.936	51.705	40.797	9.596	210.034	
Loss allowance and changes to contractual cash flows due to modifications	15	(838)	(1.538)	(16.923)	(251)	
Carrying amount	15	107.098	50.167	23.874	190.484	
Debt securities						
Baa1 - Baa3	30.930	-	-	-	30.930	
Ba1 - Ba3	14.467	-	-	-	14.467	
16	45.397	-	-	-	45.397	
Loss allowance	16	(41)	-	-	(41)	
Carrying amount	16	45.356	-	-	45.356	
Financial guarantees and loan commitments						
Gross amount	24	57.576	415	20	58.011	
Loss allowance	21	(448)	(1)	(1)	(450)	
Carrying amount		57.128	414	19	57.561	

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Concentration of loans and advances by economic sector

	30 June 2024				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	28.876	20.000	7.107	310	56.293
Construction & real estate	34.075	23.535	1.775	9.211	68.596
Industry	4.063	1	7.535	-	11.599
Hotels & catering	17.845	12.797	3.198	-	33.840
Agriculture	908	-	4.408	-	5.316
Transport and storage	1.863	-	1	-	1.864
Other sectors	<u>17.860</u>	<u>2.437</u>	<u>14.205</u>	<u>156</u>	<u>34.658</u>
	105.490	58.770	38.229	9.677	212.166
Loss allowance and changes to contractual cash flows due to modifications	(460)	(2.029)	(17.831)	(347)	(20.667)
Carrying amount	<u>105.030</u>	<u>56.741</u>	<u>20.398</u>	<u>9.330</u>	<u>191.499</u>

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Analysis of performing loans and advances by risk grade

	30 June 2024 €'000	31 December 2023 €'000
<i>Carrying amount</i>		
Grade 1-3: Low-medium risk	165.769	162.933
Grade 4-5: Special mention	<u>2.506</u>	<u>3.501</u>
	<u>168.275</u>	<u>166.434</u>
Of which loans and advances with renegotiated terms	<u>45.106</u>	<u>48.835</u>
<i>Value of collateral security*</i>		
Grade 1-3: Low-medium risk	132.280	138.671
Grade 4-5: Special mention	<u>2.406</u>	<u>3.328</u>
	<u>134.686</u>	<u>141.999</u>
Of which loans and advances with renegotiated terms	<u>38.575</u>	<u>42.172</u>

**Collateral securities as at 30 June 2024 are stated at market value capped to the carrying amount of loans and advances.*

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Analysis of loans and advances by borrower category

30 June 2024

	Total loans and advances €'000	Performing loans and advances			Non-performing loans and advances €'000
		Non-restructured €'000	Restructured €'000	Total €'000	
<i>Loans and advances to corporate legal entities</i>					
Services	36.894	27.973	5.139	33.112	3.782
Construction & real estate	58.737	32.093	23.938	56.031	2.706
Industry	6.000	-	-	-	6.000
Hotels & catering	29.765	16.739	11.234	27.973	1.792
Agriculture	3.327	-	-	-	3.327
	<u>134.723</u>	<u>76.805</u>	<u>40.311</u>	<u>117.116</u>	<u>17.607</u>
<i>Loans and advances to retail legal entities</i>					
Services	13.969	10.061	1.283	11.344	2.625
Construction & real estate	8.531	6.363	942	7.305	1.226
Industry	5.598	4.063	1	4.064	1.534
Hotels & catering	3.024	1.106	512	1.618	1.406
Agriculture	1.711	908	-	908	803
Transport and storage	1.864	1.863	-	1.863	1
Other sectors	16	-	-	-	16
	<u>34.713</u>	<u>24.364</u>	<u>2.738</u>	<u>27.102</u>	<u>7.611</u>
<i>Loans and advances to private individuals</i>					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	20.303	12.740	-	12.740	7.563
Consumer Loans	14.673	7.346	2.143	9.489	5.184
Current accounts	3.031	1.556	-	1.556	1.475
Credit facilities to sole traders	4.723	1.208	1.556	2.764	1.959
	<u>42.730</u>	<u>22.850</u>	<u>3.699</u>	<u>26.549</u>	<u>16.181</u>
Total loans and advances	212.166	124.019	46.748	170.767	41.399
Provisions and changes to contractual cash flows due to modifications	<u>(20.667)</u>	<u>(850)</u>	<u>(1.642)</u>	<u>(2.492)</u>	<u>(18.175)</u>
Carrying amount	<u>191.499</u>	<u>123.169</u>	<u>45.106</u>	<u>168.275</u>	<u>23.224</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date

	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		
	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
30 June 2024												
Within one year	27.017	-	105	22.762	-	100	2.380	-	1	1.875	-	4
Between one and two years	23.026	-	22	20.959	-	21	1.602	-	-	465	-	1
Between two and three years	17.069	-	83	11.935	-	81	3.340	-	1	1.794	-	1
Between three and five years	29.823	105	78	22.522	-	73	4.063	-	-	3.238	105	5
Between five and seven years	20.441	1.663	1.581	16.171	142	741	755	-	-	3.515	1.521	840
Between seven and ten years	16.536	2.067	870	14.383	1.847	729	335	-	-	1.818	220	141
Over ten years	<u>78.254</u>	<u>37.564</u>	<u>17.928</u>	<u>60.704</u>	<u>23.229</u>	<u>12.035</u>	<u>7.828</u>	<u>7.563</u>	<u>1.854</u>	<u>9.722</u>	<u>6.772</u>	<u>4.039</u>
	<u>212.166</u>	<u>41.399</u>	<u>20.667</u>	<u>169.436</u>	<u>25.218</u>	<u>13.780</u>	<u>20.303</u>	<u>7.563</u>	<u>1.856</u>	<u>22.427</u>	<u>8.618</u>	<u>5.031</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 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		
	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
31 December 2023												
Within one year	11.070	189	197	8.060	189	187	2.516	-	1	494	-	9
Between one and two years	23.107	6	27	17.914	3	17	3.501	-	-	1.692	3	10
Between two and three years	16.343	521	826	13.052	481	784	2.407	-	1	884	40	41
Between three and five years	33.563	2.654	1.158	25.538	2.615	1.146	3.216	-	-	4.809	39	12
Between five and seven years	24.260	1.870	1.667	21.109	388	840	602	-	-	2.549	1.482	827
Between seven and ten years	11.824	1.975	791	10.642	1.783	675	237	-	-	945	192	116
Over ten years	<u>89.867</u>	<u>34.006</u>	<u>14.884</u>	<u>72.587</u>	<u>21.276</u>	<u>9.791</u>	<u>7.300</u>	<u>7.026</u>	<u>1.601</u>	<u>9.980</u>	<u>5.704</u>	<u>3.492</u>
	<u>210.034</u>	<u>41.221</u>	<u>19.550</u>	<u>168.902</u>	<u>26.735</u>	<u>13.440</u>	<u>19.779</u>	<u>7.026</u>	<u>1.603</u>	<u>21.353</u>	<u>7.460</u>	<u>4.507</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

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

30 June 2024

	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
<i>Arrears</i>				
Less than three months	5.363	1.211	4.152	4.002
Between three and six months	1.983	624	1.359	1.322
Between six months and one year	10.589	3.184	7.405	7.403
Over one year	<u>23.464</u>	<u>13.156</u>	<u>10.308</u>	<u>7.479</u>
Total	<u>41.399</u>	<u>18.175</u>	<u>23.224</u>	<u>20.206</u>

Of which loans and advances with renegotiated terms

	<u>19.386</u>	<u>6.022</u>	<u>13.364</u>	<u>13.163</u>
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31 December 2023

	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
<i>Arrears</i>				
Less than three months	3.862	1.507	2.355	2.303
Between three and six months	8.804	2.054	6.750	6.738
Between six months and one year	1.641	943	698	697
Over one year	<u>26.914</u>	<u>12.667</u>	<u>14.247</u>	<u>10.572</u>
Total	<u>41.221</u>	<u>17.171</u>	<u>24.050</u>	<u>20.310</u>

Of which loans and advances with renegotiated terms

	<u>19.165</u>	<u>6.018</u>	<u>13.147</u>	<u>12.000</u>
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*Collateral securities as at 30 June 2024 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 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.

30 June 2024	Maximum exposure to credit risk €'000	Value of collateral			Total collateral €'000	Net exposure to credit risk €'000
		Cash €'000	Property €'000	Other €'000		
Loans and advances to customers						
Performing						
Stage 1	105.030	1.459	82.721	881	85.061	19.969
Stage 2	56.741	178	40.086	2.931	43.195	13.546
POCI	6.504	-	6.430	-	6.430	74
	<u>168.275</u>	<u>1.637</u>	<u>129.237</u>	<u>3.812</u>	<u>134.686</u>	<u>33.589</u>
Non-performing						
Stage 3	20.398	-	15.871	1.509	17.380	3.018
POCI	2.826	-	2.826	-	2.826	-
	<u>23.224</u>	<u>-</u>	<u>18.697</u>	<u>1.509</u>	<u>20.206</u>	<u>3.018</u>
	<u>191.499</u>	<u>1.637</u>	<u>147.934</u>	<u>5.321</u>	<u>154.892</u>	<u>36.607</u>
31 December 2023						
Loans and advances to customers						
Performing						
Stage 1	107.098	1.396	85.004	3.813	90.213	16.885
Stage 2	50.167	182	42.509	-	42.691	7.476
POCI	9.169	-	9.095	-	9.095	74
	<u>166.434</u>	<u>1.578</u>	<u>136.608</u>	<u>3.813</u>	<u>141.999</u>	<u>24.435</u>
Non-performing						
Stage 3	23.874	10	18.626	1.498	20.134	3.740
POCI	176	-	176	-	176	-
	<u>24.050</u>	<u>10</u>	<u>18.802</u>	<u>1.498</u>	<u>20.310</u>	<u>3.740</u>
	<u>190.484</u>	<u>1.588</u>	<u>155.410</u>	<u>5.311</u>	<u>162.309</u>	<u>28.175</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 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.

	30 June 2024				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	838	1.538	16.923	251	19.550
Transfers to Stage 1	16	(16)	-	-	-
Transfers to Stage 2	(334)	513	(179)	-	-
Transfers to Stage 3	-	(28)	28	-	-
Exchange differences	-	-	-	3	3
Changes to contractual cash flows due to modifications not resulting in derecognition	(42)	-	-	-	(42)
Write offs	-	-	(156)	-	(156)
Interest (provided) not recognised in the income statement	-	7	709	40	756
Loans derecognised or repaid	(18)	(5)	(875)	-	(898)
Change due to models and inputs	-	20	1.381	53	1.454
30 June	<u>460</u>	<u>2.029</u>	<u>17.831</u>	<u>347</u>	<u>20.667</u>

POCI: Purchased or originated as Credit Impaired

During the period ended 30 June 2024 exposures of €156 thousand (31 December 2023: €19.792 thousand) were written off, out of which €nil thousand (31 December 2023: €18.452) relate to accounting write offs.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.1 Credit risk (continued)

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

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

27.2 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.

27.2.1 Price risk

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 sovereign debt securities. 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 these Interim Consolidated Financial Statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.2 Market Risk (continued)

27.2.1 Price risk (continued)

	30 June 2024			31 December 2023		
	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	-	+10%	-	3.041	+10%	304
For below A3 rated bonds	-	-10%	-	3.041	-10%	(304)

Concentration of debt securities

	30 June 2024 €'000	31 December 2023 €'000
By sector		
Sovereigns	27.472	40.651
Corporate bonds	4.748	4.705
	<u>32.220</u>	<u>45.356</u>
By country		
Cyprus	13.690	19.781
Greece	8.111	11.139
Italy	10.419	14.436
	<u>32.220</u>	<u>45.356</u>

27.2.2 Interest rate risk

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.2 Market Risk (continued)

27.2.2 Interest rate risk (continued)

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

30 June 2024

	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	314.321	-	-	-	-	1.255	315.576
Balances with other banks	1.338	1.003	-	-	-	-	2.341
Loans and advances	80.790	23.185	81.880	-	-	5.644	191.499
Investments in equities	-	-	-	-	-	411	411
Investments in debt securities	5.496	-	12.875	13.524	-	325	32.220
Investments in associates	-	-	-	-	-	747	747
Premises and equipment	-	-	-	-	-	6.652	6.652
Intangible assets	-	-	-	-	-	691	691
Stock of property	-	-	-	-	-	8.916	8.916
Receivables and other assets	-	-	-	-	-	2.815	2.815
Total assets	<u>401.945</u>	<u>24.188</u>	<u>94.755</u>	<u>13.524</u>	<u>-</u>	<u>27.456</u>	<u>561.868</u>
LIABILITIES & EQUITY							
Bank borrowings	-	-	1.696	-	-	14	1.710
Client deposits	30.549	25.466	161.073	3.557	424	265.596	486.665
Deferred taxation	-	-	-	-	-	314	314
Accruals and other liabilities	-	-	-	-	-	12.428	12.428
Loan capital	-	-	-	-	11.250	12	11.262
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	40.834	40.834
Total liabilities and equity	<u>30.549</u>	<u>25.466</u>	<u>162.769</u>	<u>3.557</u>	<u>11.674</u>	<u>327.853</u>	<u>561.868</u>
Net position	<u>371.396</u>	<u>(1.278)</u>	<u>(68.014)</u>	<u>9.967</u>	<u>(11.674)</u>	<u>(300.397)</u>	<u>-</u>
Change in interest rates -1% - effect on profit	<u>(3.714)</u>	<u>13</u>	<u>680</u>	<u>(100)</u>	<u>117</u>	<u>-</u>	<u>(3.004)</u>
Change in interest rates +1% - effect on profit	<u>3.714</u>	<u>(13)</u>	<u>(680)</u>	<u>100</u>	<u>(117)</u>	<u>-</u>	<u>3.004</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.2 Market Risk (continued)

27.2.2 Interest rate risk (continued)

31 December 2023

	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non- interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	299.605	-	-	-	-	802	300.407
Balances with other banks	1.354	1.002	-	-	-	-	2.356
Loans and advances	74.327	25.737	84.911	-	-	5.509	190.484
Investments in equities	-	-	-	-	-	346	346
Investments in debt securities	-	2.879	17.028	25.449	-	-	45.356
Investments in associates	-	-	-	-	-	744	744
Premises and equipment	-	-	-	-	-	6.746	6.746
Intangible assets	-	-	-	-	-	593	593
Stock of property	-	-	-	-	-	8.579	8.579
Receivables and other assets	-	-	-	-	-	2.201	2.201
Total assets	<u>375.286</u>	<u>29.618</u>	<u>101.939</u>	<u>25.449</u>	<u>-</u>	<u>25.520</u>	<u>557.812</u>
LIABILITIES & EQUITY							
Bank borrowings	-	-	1.921	-	-	-	1.921
Client deposits	24.121	29.503	150.343	10.005	89	275.362	489.423
Deferred taxation	-	-	-	-	-	314	314
Accruals and other liabilities	-	-	-	-	-	8.968	8.968
Loan capital	-	-	-	-	6.250	5.011	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	37.270	37.270
Total liabilities and equity	<u>24.121</u>	<u>29.503</u>	<u>152.264</u>	<u>10.005</u>	<u>6.339</u>	<u>335.580</u>	<u>557.812</u>
Net position	<u>351.165</u>	<u>115</u>	<u>(50.325)</u>	<u>15.444</u>	<u>(6.339)</u>	<u>(310.060)</u>	<u>-</u>
Change in interest rates -1% - effect on profit	<u>(3.512)</u>	<u>(1)</u>	<u>503</u>	<u>(154)</u>	<u>63</u>	<u>-</u>	<u>(3.101)</u>
Change in interest rates +1% - effect on profit	<u>3.512</u>	<u>1</u>	<u>(503)</u>	<u>154</u>	<u>(63)</u>	<u>-</u>	<u>3.101</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.2 Market Risk (continued)

27.2.2 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 30 June 2024 and 31 December 2023, 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.2 Market Risk (continued)

27.2.3 Currency risk

Currency risk arises from adverse movements in the rates of exchange 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.

	30 June 2024			31 December 2023		
	Net open position	Change in exchange rates	Effect on profits	Net open position	Change in exchange rates	Effect on profits
Currency	€'000	%	€'000	€'000	%	€'000
US Dollar	701	+10	70	602	+10	60
British Pound	53	+10	5	38	+10	4
Russian Rouble	226	+30	68	191	+30	57
Other currencies	29	+10	3	21	+10	2
US Dollar	701	-10	(70)	602	-10	(60)
British Pound	53	-10	(5)	38	-10	(4)
Russian Rouble	226	-30	(68)	191	-30	(57)
Other currencies	29	-10	(3)	21	-10	(2)

27.3 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.3 Liquidity Risk (continued)

Key liquidity ratios

The Group Liquidity Coverage Ratio ("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 Net Stable Funding Ratio ("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 30 June 2024 was 361% (31 December 2023: 355%), well above the regulatory minimum requirement of 100%. The NSFR of the Group as at 30 June 2024 was 253% (31 December 2023: 252%), well above the regulatory minimum requirement of 100% imposed in June 2021.

Encumbered assets

Balances with other banks as at 30 June 2024 included encumbered amounts of €1 million (31 December 2023: €1 million).

27.4 Operational risk

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

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

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

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.5 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.

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% in 2022, 50% in 2023 and 75% in 2024).

Basel III Framework comprises of three Pillars:

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.5 Capital management (continued)

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.

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.

The CBC requires the Group and the Bank 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 table below presents the regulatory capital requirements, as at each reporting period:

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.5 Capital management (continued)

Regulatory Capital Requirements	30 June	31 December
	2024	2023
Pillar 1 – Total Capital Requirement	8,00%	8,00%
Pillar 2 – Total Capital Requirement	5,50%	5,50%
Capital Conservation Buffer	2,50%	2,50%
Countercyclical Buffer	<u>1,00%</u>	<u>0,50%</u>
Minimum Total Capital Regulatory Requirements	<u>17,00%</u>	<u>16,50%</u>

Minimum CET1 Regulatory Capital Requirements	30 June	31 December
	2024	2023
Pillar 1 – CET 1 Requirement	4,50%	4,50%
Pillar 2 – CET 1 Requirement	3,094%	3,094%
Capital Conservation Buffer	2,50%	2,50%
Countercyclical Buffer	<u>1,00%</u>	<u>0,50%</u>
Minimum CET 1 Regulatory Requirements	<u>11,094%</u>	<u>10,594%</u>

In addition to the above, the CBC requires the Bank to maintain Pillar II Guidance (P2G) in the form of CET 1.

The capital ratios of the Group as at 30 June 2024 were above the minimum regulatory requirements. CET 1 ratio as at 30 June 2024 stood at 22,31%, 11,22 percentage points above the minimum regulatory CET 1 ratio of 11,09%. The OCR as at 30 June 2024 stood at 27,47%, 10,47 percentage points above the minimum regulatory OCR of 17,00%. 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.

The Group's regulatory capital is analysed as follows:

<i>Common Equity Tier I Capital:</i>	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.
<i>Additional Tier I Capital:</i>	It includes the Perpetual Unsecured Subordinated Note (note 22).
<i>Tier II Capital:</i>	It includes Unsecured Subordinated Bonds (note 22).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.5 Capital management (continued)

The Group's regulatory capital position on a transitional basis as at 30 June 2024 and 31 December 2023 was as follows:

	30 June 2024 €'000	31 December 2023 €'000
Transitional basis:		
Regulatory capital		
Common Equity Tier 1	48.697	45.204
Additional Tier 1	5.000	5.000
Tier 2	<u>6.250</u>	<u>6.250</u>
Total regulatory capital	<u><u>59.947</u></u>	<u><u>56.454</u></u>
Risk weighted assets		
Credit risk	186.925	188.567
Operational risk	<u>31.310</u>	<u>31.310</u>
Total risk weighted assets	<u><u>218.235</u></u>	<u><u>219.877</u></u>
Common Equity Tier 1 ratio	<u>22,31%</u>	<u>20,56%</u>
T1 Capital ratio	<u>24,60%</u>	<u>22,83%</u>
Overall capital adequacy ratio	<u><u>27,47%</u></u>	<u><u>25,68%</u></u>

The above capital ratios include unaudited profits for the six-month period ended 30 June 2024.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

27. RISK MANAGEMENT (continued)

27.6 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 30 June 2024 was 8,67% (31 December 2023: 8,72%), well above the 3% minimum threshold applied by the competent authorities.

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

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

On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD II came into effect and it must be transposed into National Law. BRRD II was transposed and implemented in Cyprus law in early May 2021. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

The Central Bank of Cyprus in its capacity as the National Resolution Authority of Less Significant Institutions (LSIs) sets and monitors minimum MREL requirements. On 25 April 2024, CBC communicated to the Bank its final decision for the determination of MREL, by which MREL requirement for the Bank was set at 16,00% of total risk weighted assets (RWAs) and 4,25% of total leverage ratio exposure (LRE). The MREL requirement is the sum of Pillar 1 capital requirement of 8,00%, Pillar 2 capital requirement of 5,50% and Loss Absorption Amount Add-on (LAA Add-on) capital requirement of 2,50% which should be met by 31 December 2024. Until then, the Bank should comply as a minimum with the intermediate target of 14,50% of its total risk exposure amount and 4,25% of its total leverage ratio exposure ("Interim Binding MREL Ratios"). The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) is not eligible to meet its MREL requirements expressed in terms of risk-weighted assets. The MREL ratio of the Group as at 30 June 2024 stood at 23,97% (31.12.2023: 22,68%), 797 bps above the MREL final target of 16,00% and 947 bps above the interim binding MREL ratio of 14,5%. The Group leverage ratio as at 30 June 2024 stood at 8,67% (31.12.2023: 8,72%). The MREL requirement as at 30 June 2024 was met with regulatory capital.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

28. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

	30 June 2024			31 December 2023		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€'000	€'000	€'000	€'000	€'000	€'000
ASSETS						
Cash and balances with central banks	310.757	4.819	315.576	295.721	4.686	300.407
Balances with other banks	2.341	-	2.341	2.356	-	2.356
Loans and advances	59.753	131.746	191.499	52.166	138.318	190.484
Investments in equities	-	411	411	-	346	346
Investments in associates	-	747	747	-	744	744
Investments in debt securities	13.580	18.640	32.220	19.907	25.449	45.356
Premises and equipment	-	6.652	6.652	-	6.746	6.746
Intangible assets	-	691	691	-	593	593
Stock of property	8.916	-	8.916	8.579	-	8.579
Receivables and other assets	1.892	923	2.815	1.284	917	2.201
Total assets	397.239	164.629	561.868	380.013	177.799	557.812
LIABILITIES						
Bank borrowings	437	1.273	1.710	437	1.484	1.921
Client deposits	482.684	3.981	486.665	479.329	10.094	489.423
Deferred taxation	-	314	314	-	314	314
Accruals and other liabilities	11.243	1.185	12.428	7.732	1.236	8.968
Loan capital	12	11.250	11.262	11	11.250	11.261
Total liabilities	494.376	18.003	512.379	487.509	24.378	511.887

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 their contractual maturity. Current account balances are classified under the "less than one year" time band.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

28. 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.

29. SHAREHOLDERS

The shareholding structure as at 30 June 2024 is shown below:

	Shareholding structure as at 30 June 2024	
	Number of shares	% of total
7Q Invest AIF V.C.I.C. PLC I Multi Opportunities	6.681.171	15,44%
7Q Holdings Ltd	1.188.447	2,75%
7Q Financial Services Ltd	781.250	1,80%
Path Holdings Ltd	8.197.836	18,94%
Constantinos Shiacolas	7.058.982	16,31%
Delphis Ependysis Ltd	6.064.370	14,01%
8Safe International Ltd	4.284.322	9,90%
Intergaz Ltd	4.106.922	9,49%
Leon Investment SARL	2.102.881	4,86%
Leonidas Ioannou	1.510.571	3,49%
Adamos Christodoulou	695.000	1,61%
Shareholders with holdings below 1%	604.227	1,40%

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

30. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2024	2023
	€'000	€'000
Director emoluments		
<i>Executives</i>		
Salaries	146	140
Employer's contributions for social insurance, etc	20	14
Retirement benefits	<u>12</u>	<u>11</u>
	178	165
<i>Non-executives</i>		
Fees	<u>128</u>	<u>115</u>
	<u>306</u>	<u>280</u>
Key management personnel emoluments		
Salaries	240	225
Employer's contributions for social insurance, etc	31	28
Retirement benefits	<u>20</u>	<u>18</u>
	<u>291</u>	<u>271</u>
Total	<u>597</u>	<u>551</u>

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 include the remuneration of the members of the EXCO committee with voting rights.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

30. RELATED PARTY TRANSACTIONS (continued)

Members of the Management Body and connected persons (continued)

Transactions with members of the Management Body and connected persons:

	30 June 2024 €'000	31 December 2023 €'000
Loans and advances	<u>148</u>	<u>153</u>
Deposits	<u>2.694</u>	<u>253</u>
Loan capital - Subordinated Tier 2 Bonds	<u>556</u>	<u>556</u>
Unutilised limits	<u>8</u>	<u>11</u>
Assets under custody	<u>2.178</u>	<u>2.256</u>
Interest and other income for the year	<u>3</u>	<u>5</u>
Interest expense for the period	<u>(23)</u>	<u>(40)</u>

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.

	30 June 2024 €'000	31 December 2023 €'000
Loans and advances	<u>46</u>	<u>51</u>
Deposits	<u>238</u>	<u>194</u>
Guarantees and unutilised limits	<u>39</u>	<u>38</u>
Interest and other income for the period	<u>1</u>	<u>2</u>
Interest expense for the period	<u>(1)</u>	<u>(1)</u>

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

30. RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders

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

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

As at 30 June 2024 and 31 December 2023, there were no shareholders who had significant influence over the Bank and/or held directly or indirectly more than 20% of the issued share capital of the Bank.

During the period ended 30 June 2024, there were no purchases of goods and services from Shareholders with significant influence and their connected persons as defined above (31 December 2023: nil).

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

Transactions with associates

	30 June 2024 €'000	31 December 2023 €'000
Loans and advances	<u>603</u>	<u>587</u>
Other trading receivables	<u>-</u>	<u>18</u>
Other trading payables	<u>581</u>	<u>587</u>
Guarantees and unutilised limits	<u>-</u>	<u>3</u>
Interest income for the period	<u>16</u>	<u>32</u>
Other trading income for the period	<u>37</u>	<u>73</u>

Transactions with subsidiaries

The Bank is the holding company of the Group. The Bank enters into transactions with its subsidiaries in the normal course of business. Transactions with the subsidiaries have been eliminated on consolidation.

31. MATERIAL LITIGATION

As at 30 June 2024, 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

31. MATERIAL LITIGATION (continued)

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 an early stage, and the Bank is closely monitoring this claim.

32. OPERATING ENVIRONMENT

During the first half of 2024 the economy of Cyprus recorded a positive performance, along the trajectory of 2023. According to the key bodies' averaged data, the forecast for the 2024 GDP growth is 2,9%, compared to 2,5% and 5,1% for 2023 and 2022, respectively. The 2024 performance compares favourably with the European Commission's 2024 forecasts for the euro area and the EU, set to 0,8% and 1,0%, respectively. The outlook of the Cyprus economy in the medium to long run remains positive, with the 2025 and 2026 GDP growth forecasts increasing to 3,1% and 3,2% respectively. Inflation is forecasted to decline towards 2,2% for 2024 and 2% for 2025 and 2026. The performance of the Cyprus economy, which includes an improvement in primary surpluses (2,5% of GDP for the first 5 months of the year), is reflected in the gradual decline of the government Debt-to-GDP ratio from 77,3% in 2023 to 65,4% in 2025. Cyprus holds an investment grade rating with major credit rating agencies, a status enhanced following a series of upgrades in H1-2024. The continuing geopolitical turbulence continues to represent a source of uncertainty globally, with direct potential impact on economic activity, inflation and monetary policies. In this context, all forecasts of key macroeconomic indicators require continuous monitoring in order to ensure they reflect the prevailing conditions.

During the first half of 2024 banks in Cyprus continued to benefit from the favourable interest rate conditions and the absence of losses from non-performing exposures, the latter reflecting the persistent and costly efforts of prior years for their reduction and management. The results of the banks were also aided by the positive performance of the resilient Cyprus economy which, given the local character of banking in Cyprus, has a direct impact on the repayment capability of borrowers. Indicatively, the combined net interest income, the operating profit and the net profit of the 3 largest banks for H1-2024 increased by 20%, 17% and 25% respectively compared to the respective 2023 period; however, the change in their combined loans for the same period was limited to 1,1%, slightly higher than the average annual growth of 0,9% for the 3 preceding years. The capital adequacy continued to further improve, with the average CET1 and Total Capital ratios of the 3 largest banks reaching 27% and 30,5%, respectively. Banks in Cyprus continued to exhibit strong liquidity with total sector deposits €53,4bln, recording a moderate annualised increase of 3% since December 2020. The banking sector's Loans-to-Value ratio continued to decline albeit at lower rates, reaching 47% in June 2024 (compared to 66% in December 2020). The positive developments continued to attract investor interest, as reflected by the market capitalisation of the two largest and listed banks, which recorded in H1-2024 further gains of 18,5% (adjusted to 22,3% for distributions). It is worth noting that their market capitalisation increased from €0,64 billion in December 2020 to €2,86 billion in June 2024. Banks remain alert as to changes in the operating environment that may have a negative impact on their financial position, given the uncertainty stemming from the international geopolitical and economic developments and conditions. In this context, banks monitor closely the interest rates environment, given the possibility to enter a cycle of lower interest rates.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

32. OPERATING ENVIRONMENT (continued)

In 2023 and H1-2024 the tourism sector reiterated its position as core revenue contributor of the Cyprus economy despite the challenges faced. In 2023 tourist arrivals had reached 3,81 million, not far from the pre-pandemic record level of 3,98 million achieved in 2019. Revenues for the same period increased by 22,6%, from €2,44 billion to €2,99 billion. As regards H1-2024, according to the Cyprus Statistical Service, tourist arrivals reached 1,65 million, achieving an increase of 5,5% over H1-2023. The revenues for the same period reached €1,14 billion, recording an increase of 4,2% compared to H1-2023. The resilience of the tourism industry is established by the fact that the 2023 and H1-2024 performances were achieved despite the loss of arrivals from the Russian market and a significant decline of arrivals from Israel, both a result of adverse geopolitical developments. Market participants appear to be cautiously optimistic for 2024, as the yearly arrivals are set to reach the record numbers of 2019.

As regards inflation, following the 8,3% peak of 2022 and the decline to 3,9% for 2023, it is forecasted to further decline towards 2,2% for 2024 and 2% for 2025 and 2026. The 2024 inflation rate forecast compares favourably with respective euro zone forecast of 2,44%. The international geopolitical developments, as evidenced through the Ukraine and Middle East cases, continue to represent a considerable source of inflation risk given their direct impact on external demand and energy costs.

During H1-2024 employment conditions in Cyprus continued to improve. According to the Labour Force Survey of the Cyprus Statistical Service, during the second quarter of 2024 the unemployment level was 4,6%, recording a decline of 1,3% compared to the respective period in 2023. Specifically, at the end of Q2-2024 the total labour force was 511.423 persons, out of which 23.760 were registered as unemployed. According to the June 2024 Economic Bulletin of the Central Bank of Cyprus, the unemployment forecast for 2024 is 5,7%, compared to 6,1% for 2023 and 6,8% for 2022. A further unemployment rate decline is forecasted for 2025 and 2026, with forecasts set to 5,6% and 5,3%, respectively.

During H1-2024 the real estate sector retained its status as a significant pillar of the Cyprus economy. Despite challenges such as the significant increase in prices, construction cost, borrowing cost and geopolitical uncertainty, during the first 6 months of 2024 most activity indicators recorded positive performances. Thus, the overall sector activity remained at high levels. The demand from local and foreign buyers in conjunction with limited supply continued to yield increases in volume and value of transactions, albeit at decelerated price change rates. Starting with the transfers of sales, during H1-2024 the underlying number (9.374) and value (€2,07 billion) increased by 8% and 0,7%, respectively, compared to the respective period for 2023. The number of contracts of sales was 7.553, recording a small decrease of 1.8% over the same period for 2023. As regards building permits, according to the Cyprus Statistical Service all activity indicators recorded an increase during the first four months of 2024; 3,854 dwelling units (+24%), area of 818.766 square meters (+16%), total value €991,6 million (+9%) and 2,545 number of permits (+8%). The value of residential buildings reached 76,6% of total value, whereas 62% of residential buildings (dwelling units) regarded residential apartment blocks. These numbers are in line with the high demand for housing and mainly apartments, from both local and foreign buyers, either for investment or own housing purposes, and could yield a material increase in supply.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2024

32. OPERATING ENVIRONMENT (continued)

Moreover, according to the June 2024 Economic Bulletin of the Central Bank of Cyprus, the share of local buyers' demand continues to increase, despite the increase in the cost of housing loans from 3,9% to 5% in the first 4 months of the year. Demand for housing loans for the same period of 2024 declined by 7,4% compared to the same period for 2023. As regards real estate prices, during Q1-2024 the Central Bank's Residential Property Price Index recorded an increase of 1,6%, with apartments being again the best performer (3,4%) and houses achieving a marginal gain (0,8%). The respective Q1-2024 average values of RICS Cyprus Property Index with KPMG in Cyprus, are 1,47% for apartments and 0,46% for houses. As regards the Q2-2024 performance, according to RICS-KPMG, modest increases were reported in all asset categories except retail, with apartments recording the best performance (average 0,67%). The real estate activity levels are expected to remain at high levels, even though prices will be determined by the dynamic demand and supply conditions.

The monetary decisions of the European Central Bank's Governing Council have a direct impact on Cyprus, as it adopted the euro and joined the euro zone on 1 January 2008. After nearly ten years of nil to negative rates, the ECB opted for a cycle of increased higher rates in order to bring inflation back to medium term target of 2%. Due to the adverse geopolitical and health-related conditions, the inflation rate in euro zone had peaked at 8,4% in 2022 before subsiding to 5,4% in 2023. In this context the deposit facility rate reached 4% in September 2023, whereas it was decreased by 0,25% decrease in June 2024. The restrictive level of policy rates had a significant impact on both the lending and deposit rates in Cyprus, leading initially to a significant widening of the spread of lending rates over deposit rates; this development yielded increased revenues on the ample liquidity of banks. Despite the gradual increase of the deposit rates, banks continued to enjoy significantly improved net interest margins; indicatively, for the two largest banks, the net interest margin increased from 1,63% in 2022 to 3,03% in 2023 and 3,47% in H1-2024. The higher interest rates did not have an adverse impact on the bank's loan portfolio quality which, according to the June 2024 Economic Bulletin of the Central Bank of Cyprus, continued to improve; the level of non-performing exposures in March 2024 was €1,8 billion, reaching its lowest point of since 2014.

ECB's July 2024 inflation projection for the euro area is 2,5% for 2024, 2,0% for 2025 and 1,9% for 2026. At the same time, ECB's real GDP growth forecast is 0,6% for 2024, 0,9% for 2025 and 1,4% for 2026. As regards the outlook of ECB's future monetary policy decisions, its Governing Council continues to reiterate its determination to ensure that inflation returns to its 2% medium term target in a timely manner, to set policy rates at sufficiently restrictive levels for as long as necessary, and to continue to follow a data-dependent and meeting-by-meeting approach to determine the level and duration of restrictive financing conditions.

33. EVENTS AFTER THE REPORTING PERIOD

No significant non-adjusting events have taken place since 30 June 2024.

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