# NATIONAL BANK OF GREECE (CYPRUS) LIMITED

Annual Report and Financial Statements
Year ended 31 December 2020

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2020**

**CONTENTS**

## OFFICERS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| **Board of Directors:** | |
| **Chair of the Board:** | Louka Katseli, Independent Non-Executive Member |
| **Vice Chairman:** | Christos Christodoulou, Non-Executive Member |
| **Members:** | Stavros Stavrou, Senior Independent, Non-Executive Member<br>Marinis Stratopoulos, Managing Director (CEO)<br>Ioannis Tzimos, General Manager, Executive Member<br>Mark Klerides, Independent, Non-Executive Member<br>Christodoulos Seferis, Independent Non-Executive Member<br>Nicholas Defteras, Independent, Non-Executive Member |
| **The Board of Directors, as at 31.12.2020 comprised the following Members:** | |
| **Chair of the Board:** | Louka Katseli, Independent, Non-Executive Member |
| **Vice Chairman:** | Christos Christodoulou, Non-Executive Member |
| **Members:** | Stavros Stavrou, Senior Independent, Non-Executive Member<br>Marinis Stratopoulos, Managing Director (CEO)<br>Ioannis Tzimos, General Manager, Executive Member<br>Mark Klerides, Independent, Non-Executive Member<br>Christodoulos Seferis, Independent, Non-Executive Member<br>Nicholas Defteras, Independent, Non-Executive Member |
| **Secretary** | Lucia Pagdati<br>15 Arch. Makarios III, 1065 Nicosia, Cyprus |
| **Independent Auditors** | PricewaterhouseCoopers Limited<br>43 Demostheni Severi Avenue, 1080 Nicosia, Cyprus |
| **Legal Advisers** | Chrysses Demetriades & Co<br>Velaris & Velaris LLC |
| **Registered Office** | 15 Arch. Makarios III, 1065 Nicosia, Cyprus |

**MANAGEMENT REPORT**
**YEAR ENDED 31 DECEMBER 2020**

The Board of Directors presents the management report together with the audited financial statements of the National Bank of Greece (Cyprus) Limited (the "Bank") for the year ended 31 December 2020.

**PRINCIPAL ACTIVITY**

The main activity of the Bank is the provision of a wide range of banking and financial services. The Bank is a wholly owned subsidiary of National Bank of Greece S.A. ("parent bank").

**OPERATING ENVIRONMENT**

The operating environment of the Bank is presented in Note 38 of the financial statements.

**REVIEW OF DEVELOPMENTS, POSITION AND PERFORMANCE OF THE BANK'S BUSINESS**

As presented on page 12 of the financial statements, the loss of the Bank after taxation amounted to €9.430.938 (2019: loss of €1.400.596).

The main financial highlights for the year are set out below. The decrease in the Bank's profitability during the year-ended 31 December 2020 was primarily attributable to the decrease in the interest income during the year, increased other income and foreign exchange gains in the prior year, increased Expected Credit Losses ("ECL") in the current year and increased tax charge in the current year in relation to deferred tax asset impairment.

| | **2020**<br>**€'000** | **2019**<br>**€'000** |
|---|---|---|
| Net Interest Income | **10.770** | 11.833 |
| Fee and Commission Income | **3.711** | 3.835 |
| Other Income and foreign exchange gains | **1.805** | 4.080 |
| Staff Costs | **(15.455)** | (15.165) |
| Other Operating Expenses | **(6.623)** | (5.755) |
| Impairment (charge)/release for ECL on Loans and Advances to Customers | **(1.668)** | 83 |
| Loss for the Year, after Tax | **(9.431)** | (1.401) |
| Loans and Advances to Customers before ECL allowance (Gross Loans) | **223.791** | 253.350 |
| Deposits and other customer accounts (Customer deposits) | **566.447** | 597.582 |
| Total Assets | **662.902** | 708.995 |
| Total Equity | **67.059** | 75.975 |

| | **2020** | **2019** |
|---|---|---|
| Net Interest Margin | **1,7%** | 1,8% |
| Cost to Income ratio | **134,7%** | 105,7% |
| Return on average equity | **-12,9%** | -1,9% |
| Loans and Advances to Customers to Customer Deposits (net) | **36,9%** | 42,3% |
| Non Performing Exposures ("NPEs") to Gross Loans | **22,6%** | 18,6% |
| Total capital ratio | **35,55%** | 30,42% |
| Core Equity Tier 1 ratio | **35,55%** | 30,42% |

**MANAGEMENT REPORT (continued)**
**YEAR ENDED 31 DECEMBER 2020**

## BRANCH NETWORK

The Bank operates in Cyprus through 13 Branches (9 Retail, 2 Business Centers, 2 IBUs). The Bank has also established a Representative Office in Moscow, Russia.

## GOING CONCERN

Management has made an assessment of the Bank's ability to continue as a going concern.

Despite uncertain economic environment in Cyprus as described in Note 38 of the financial statements, the Board of Directors of the Bank has assumed that the Bank has the ability to continue its operations as a going concern on the basis of the Bank's liquidity and capital adequacy position (see Note 40 of the financial statements).

## PRINCIPAL RISKS AND UNCERTAINTIES, RISK MANAGEMENT, AND USE OF FINANCIAL INSTRUMENTS BY THE BANK

The Bank is exposed to various risks, the most important of which are Credit Risk, Liquidity Risk, and Market Risk (including interest rate risk and foreign exchange risk). Detailed information relating to the Bank's risk exposures and risk management are set out in Note 39 of the financial statements.

**Credit risk**
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from counterparty credit risk. The Bank's exposure and the credit ratings and credit worthiness of counterparties are regularly monitored and the counterparty credit exposure is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits approved by the Bank and which are reviewed and approved at least on an annual basis.

The loan portfolio is assessed on the basis of customer creditworthiness, sector of the economy in which the customer operates and the country of operation and is regularly audited by the Internal Audit department. The Bank's policy regarding the determination of the level of provisions for impairment is described in the summary of significant accounting policies.

**Liquidity risk**
Liquidity risk is the risk that the Bank is unable to meet current and future payments obligations as and when they fall due. This risk includes the possibility that the Bank may have to raise funding at a higher cost or sell assets at a discount.

Bank assets are mainly funded by deposits. The maturity of the deposits is actively monitored in order to avoid concentration of funding maturities at any point in time. The responsibility for the management of liquidity rests with the Bank's treasury department.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity requirements, in order to also ensure compliance with the applicable regulatory limits.

**Market risk**
Market risk is the risk of loss from adverse changes in market prices. The Bank is exposed primarily to financial risks emanating from changes in foreign currency exchange rates and interest rates. The ways that these risks are dealt with are analysed below:

*Interest rate risk*
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the interest rate repricing of assets and liabilities. The Bank monitors on a continuous basis the interest rate movements and the repricing or maturity structure of its assets and liabilities.

**MANAGEMENT REPORT (continued)**
**YEAR ENDED 31 DECEMBER 2020**

**PRINCIPAL RISKS AND UNCERTAINTIES, RISK MANAGEMENT, AND USE OF FINANCIAL INSTRUMENTS BY THE BANK (continued)**

**Market risk (continued)**

*Currency risk*
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. It arises from an open position in a foreign currency, creating an exposure to a change in the relevant exchange rate. This may arise from the holding of financial assets in one currency funded by liabilities in another currency.

In order to manage currency risk, the Bank has approved open position limits for each currency. Adherence to the limits is monitored on a daily basis by the treasury department and the operations and support division.

## EXPECTED FUTURE DEVELOPMENTS OF THE BANK / STRATEGIC TARGETS

In the first quarter of 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. The COVID-19 pandemic has caused a significant global economic downturn which has adversely affected, and is expected to continue to adversely affect, the Bank's business and results of operations. The evolution of the disease and its economic impact remains highly uncertain.

Cyprus economy is facing significant challenges in view of the important role of services in economic activity and its relatively shallow production structure (high dependence on imports). The backdrop of ongoing downward revisions of growth forecasts for the global economy and the euro area, in conjunction with Cyprus' high dependency on inbound tourism, pose significant downside risks to Cyprus GDP growth in 2021. The future impacts of the COVID-19 pandemic on the Cyprus and/or global economy and the Bank's business, results of operations and financial condition remain uncertain.

With the COVID-19 pandemic still affecting the Cyprus (and global) economy, 2021 is expected to be a year of gradual recovery of the economic activity after an unprecedented historical disruption. More specifically, the rollout of vaccinations, supportive financial conditions and the initiation of the a set of measures provided in 2020 and continued in 2021 (see Note 38) will be the key drivers of economic recovery and the hit to the economy could be reversed until early-2023, assuming that: a) the pandemic is sufficiently addressed in 2021 through the rollout of vaccinations, with no significant recurrence of the disease due to virus mutations and/or insufficient coverage of the population; and b) the persistent impact of fiscal and monetary easing, in conjunction with liquidity measures, will continue to assist the recovery in most sectors of economic activity, preventing the ongoing demand and liquidity stress on specific entities from turning into a solvency issue for a part of the private sector.

The Bank's priority is always the well-being of our customers and staff. Therefore, we have invoked our business continuity plans to help ensure the safety and well-being of our staff, as well as our capability to support our customers and maintain our business operations.

The strategic objectives of the Bank for the following years are:

- Effective management of the performing portfolio in order to restrain the creation of new non-performing exposures as a result of COVID-19 outbreak.
- Effectively manage the NPE and further reduce the Bank's NPE ratio.
- Maintain healthy – low cost liquidity and maintain adequate regulatory liquidity ratios in accordance with the Central Bank of Cyprus liquidity requirements.
- Implementation of a restructuring plan in 2021 aimed at reducing costs, increasing profitability and improving profitability ratios.
- Maintain capital adequacy position.
- Further strengthening of banking services towards Real Estate, Energy, Education, Shipping and Construction industries.

**MANAGEMENT REPORT (continued)**
**YEAR ENDED 31 DECEMBER 2020**

## SHARE CAPITAL

There were no changes in the share capital of the Bank.

## RESULTS

The Bank's results for the year ended 31 December 2020 are set out on pages 12 and 13. The loss for the year is transferred to retained earnings.

## EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in Note 41 of the Financial Statements.

## BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2020 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2020 and up to the date of this Management Report.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors during the year.

## INDEPENDENT AUDITORS

The Independent auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors

Louka Katseli
Chairwoman

Lucia Pagdati
Secretary

Nicosia, 27 May 2021

# *Independent Auditor's Report*

**To the Members of National Bank of Greece (Cyprus) Limited**

## *Report on the Audit of the Financial Statements*

### *Our opinion*

In our opinion, the accompanying financial statements of parent company National Bank of Greece (Cyprus) Limited (the "Bank") give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

**What we have audited**

We have audited the parent company financial statements which are presented in pages 12 to 100 and comprise:

- the Balance sheet as at 31 December 2020;
- the Income statement for the year then ended;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Statement of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### *Basis for opinion*

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We remained independent of the Bank throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Credit loss allowance for loans and advances to customers, using the expected credit loss model in line with the requirements of IFRS 9 "Financial Instruments"*<br><br>We focused on this area because this is a complex accounting standard for which models have been developed by the Bank to calculate expected credit losses ("ECL") and significant judgements and estimates are involved in estimating expected credit losses on loans and advances to customers.<br><br>Loans and advances to customers comprise a large portion of the Bank's total assets and in view of the significance of the judgements and estimates involved in estimating expected credit losses on loans and advances to customers we have considered this to be a key audit matter.<br><br>Note 3 "Summary of Significant Accounting Policies", Note 5 "Critical Accounting Estimates and Judgments", Note 21 "Credit loss allowance on loans and advances to customers" and Note 39 "Risk Management" to the financial statements provide detailed information on the estimation of expected credit losses on loans and advances to customers, on credit risk management practices, credit risk exposures, as well as qualitative and quantitative information arising from expected credit losses on loans and advances to customers. | We updated our understanding of the models used by the Bank and further evaluated management's implementation process of these models for the calculation of expected credit losses ("ECL"). These included probability-weighted macroeconomic scenarios, staging criteria and loss given default estimates.<br><br>We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias:<br><br>• Probability of default ("PD");<br>• Loss given default ("LGD");<br>• Exposure at default ("EAD");<br>• Discount rates;<br>• Forward looking information.<br><br>Further, in obtaining sufficient audit evidence we:<br><br>• Obtained an understanding and assessed the reasonableness of the key outputs calculated by the models;<br><br>• Understood, evaluated the design and tested the operating effectiveness of key controls around the process of loan performance monitoring and the process of ECL data input management;<br><br>• Evaluated, challenged and tested the key assumptions and judgements adopted by management;<br><br>• Reviewed the Bank's methodology for ECL provisioning to establish key inputs used in the calculation engine and on a sample basis tested the key inputs used. Inputs used in the sample tested were compared to the ECL methodology to ensure consistency with policies;<br><br>• Performed procedures to obtain comfort on the accuracy of the ECL calculation process through recalculation; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | • Performed procedures to ensure that the Bank applies the three-stage approach for categorisation of loans and advances to customers and that changes in credit quality since initial recognition are appropriately monitored, determined and reflected in the Bank's financial position;<br><br>• Performed loan file reviews on a sample basis to inspect financial particulars and assessed the adequacy of ECL;<br><br>• Assessed the disclosures made to ensure compliance with the relevant accounting standards.<br><br>The results of the above procedures were satisfactory. |
| ***Recoverability of Deferred Tax Assets***<br><br>As at 31 December 2020, the Bank has deferred tax assets of €3,5 million in respect of tax losses available to be carried forward to future years. The basis of the recognition is presented in Note 3 "Summary of Significant Accounting Policies" and further analysed in Note 5 "Critical Accounting Estimates and Judgements" and Note 15 "Income Tax".<br><br>The recovery and carrying amount of the deferred tax assets require management judgement and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward.<br><br>In light of the inherent uncertainty and significant amount of judgement and estimation required by management, we have considered future forecasts supporting the recognition of deferred tax assets to be a key audit matter. | In obtaining sufficient audit evidence:<br><br>• We agreed the historical taxable losses which have given rise to the deferred tax asset to appropriate supporting documentation such as prior year tax computations;<br><br>• We agreed future taxable profits as estimated by management to the Bank's business plan whose internal mathematical consistency and calculations were assessed for accuracy;<br><br>• We assessed projected taxable profits for reasonableness with reference to known historical results of the Bank;<br><br>• We assessed management's plans for new lending for reasonableness with reference to existing and projected levels of excess liquidity;<br><br>• We assessed the Bank's projected cost base for reasonableness with reference to the historical cost basis as adjusted for expected changes thereon;<br><br>• We assessed the accuracy of calculations that pertain to deferred tax asset impairment recognised during the year with reference to the Bank's projected taxable profits and the statutory expiry dates of relevant losses;<br><br>• We scrutinised via recalculation the accuracy of the Bank's sensitivity analysis disclosure pertaining to adverse developments that may depart from projected outcomes; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | • We assessed the adequacy and appropriateness of remaining relevant disclosures for compliance with the applicable accounting standards.<br><br>The results of the above procedures were satisfactory. |

## *Reporting on other information*

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

## *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

## *Report on Other Legal and Regulatory Requirements*

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

### ***Appointment of the Auditor and Period of Engagement***

We were first appointed as auditors of the Bank on 5 October 2017 by the Board of Directors of the Bank for the audit of the financial statements for the year ended 31 December 2017. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

### ***Consistency of the Additional Report to the Audit Committee***

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 26 May 2021 in accordance with Article 11 of the EU Regulation 537/2014.

***Provision of Non-audit Services***

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

***Other Legal Requirements***

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

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

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

## *Other Matter*

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

The engagement partner on the audit resulting in this independent auditor's report is George C. Kazamias.

George C. Kazamias

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

PwC Central, 43 Demostheni Severi Avenue
CY-1080 Nicosia Cyprus

27 May 2021

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020 € | 2019 € |
|---|---|---|---|
| Interest income | 6 | **11.357.529** | 13.466.725 |
| Interest expense | 7 | **(587.142)** | (1.634.074) |
| Net interest income | | **10.770.387** | 11.832.651 |
| Fee and commission income | 8 | **3.711.206** | 3.834.611 |
| Net foreign exchange gains | 9 | **170.762** | 399.883 |
| Other income | 10 | **1.633.871** | 3.679.927 |
| Other losses | 11 | **(166.580)** | (203.222) |
| | | **16.119.646** | 19.543.850 |
| Staff costs | 13 | **(15.454.699)** | (15.165.269) |
| Depreciation of property, plant and equipment | 24, 25 | **(1.011.750)** | (1.075.122) |
| Amortisation of intangible assets | 27 | **(618.667)** | (546.384) |
| Other operating expenses | 14 | **(4.992.704)** | (4.133.910) |
| | | **(22.077.820)** | (20.920.685) |
| Loss before impairment charge for ECL on loans and advances to customers and other financial assets | | **(5.958.174)** | (1.376.835) |
| Impairment (charge) / reversal for ECL on loans and advances to customers | 21 | **(1.668.329)** | 83.303 |
| Reversal / (charge) of impairment for ECL on other financial assets | 12 | **432.653** | (169.481) |
| Impairment charge for ECL on financial assets | | **(1.235.676)** | (86.178) |
| Loss before tax | | **(7.193.850)** | (1.463.013) |
| Tax (charge)/credit | 15 | **(2.237.088)** | 62.417 |
| **LOSS FOR THE YEAR** | | **(9.430.938)** | (1.400.596) |

The notes on pages 17 to 100 form an integral part of the financial statements.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020<br>€ | 2019<br>€ |
|---|---|---|---|
| LOSS FOR THE YEAR | | **(9.430.938)** | (1.400.596) |
| **Other comprehensive income/(expense)** | | | |
| ***Items that will not be reclassified to profit or loss*** | | | |
| (Loss)/gain on revaluation of properties | 33 | **(9.738)** | 215.000 |
| Changes in the fair value of equity investments designated at fair value through other comprehensive income | 22, 33 | **524.303** | 2.243.482 |
| **Items that will not be reclassified to profit or loss** | | **514.565** | 2.458.482 |
| Other comprehensive income for the year, net of tax | | **514.565** | 2.458.482 |
| **TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR** | | **(8.916.373)** | 1.057.886 |

The notes on pages 17 to 100 form an integral part of the financial statements.

## BALANCE SHEET AT 31 DECEMBER 2020

| | Note | 2020 € | 2019 € |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank of Cyprus | 16 | **132.221.161** | 49.202.111 |
| Mandatory deposits with Central Bank of Cyprus | 16 | **5.412.868** | 6.086.485 |
| Deposits with other banks | 17 | **34.431.345** | 38.828.908 |
| Loans and advances to customers | 19 | **209.299.000** | 240.364.963 |
| Deposits with related banks | 20(a) | **80.787.897** | 185.861.725 |
| Equity investments at fair value through other comprehensive income | 22(a) | **7.187.150** | 6.662.847 |
| Equity investments at fair value through profit or loss | 22(b) | **3.131** | 5.212 |
| Other financial assets at amortised cost | 23 | **166.003.473** | 146.787.096 |
| Investment in subsidiary | 18 | **1.709** | 1.709 |
| Property, plant and equipment | 24 | **10.181.190** | 10.385.422 |
| Right-of-use assets | 25 | **2.196.355** | 3.054.955 |
| Investment property | 26 | **3.840.000** | 4.004.500 |
| Intangible assets | 27 | **5.111.717** | 5.042.211 |
| Other assets | 28 | **2.747.022** | 4.825.691 |
| Current income tax assets | | **-** | 1.453.904 |
| Deferred income tax assets | 15(b) | **3.478.239** | 6.427.398 |
| **Total assets** | | **662.902.257** | 708.995.137 |
| **LIABILITIES** | | | |
| Deposits from other banks | 29 | **12.271.766** | 16.944.584 |
| Deposits and other customer accounts | 30 | **566.447.040** | 597.582.328 |
| Deposits from related banks | 20(b) | **5.612.232** | 4.828.072 |
| Lease liabilities | 25 | **2.353.531** | 3.144.266 |
| Other liabilities | 31 | **7.300.556** | 8.702.494 |
| Current income tax liabilities | | **35.124** | - |
| Deferred income tax liabilities | 15(b) | **1.823.283** | 1.818.295 |
| **Total liabilities** | | **595.843.532** | 633.020.039 |
| **EQUITY** | | | |
| Share capital | 32 | **51.300.000** | 51.300.000 |
| Revaluation reserves | 33 | **15.764.492** | 15.249.927 |
| Retained earnings | | **(5.767)** | 9.425.171 |
| **Total equity** | | **67.058.725** | 75.975.098 |
| **Total liabilities and equity** | | **662.902.257** | 708.995.137 |

The financial statements have been approved by the Board of Directors on 27 May 2021.

| | |
|---|---|
| ……………………… | ……………………… |
| Louka Katseli<br>Chairwoman | Marinis Stratopoulos<br>Chief Executive Officer |
| ……………………… | ……………………… |
| Stavros Stavrou<br>Senior Independent, Non-Executive Member | Yiannos Michael<br>Chief Financial Officer |

The notes on pages 17 to 100 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

| | Share Capital € | Property revaluation reserve € | Revaluation reserve for financial assets at FVOCI € | Retained earnings (1) € | Total € |
|---|---|---|---|---|---|
| **Balance at 1 January 2019** | 51.300.000 | 8.182.266 | 4.609.179 | 10.825.767 | 74.917.212 |
| **Comprehensive income:** | | | | | |
| Loss for the year | - | - | - | (1.400.596) | (1.400.596) |
| Other comprehensive income for the year (Notes 22, 24, 33) | - | 215.000 | 2.243.482 | - | 2.458.482 |
| Total comprehensive income for the year | - | 215.000 | 2.243.482 | (1.400.596) | 1.057.886 |
| **Balance at 31 December 2019/1 January 2020** | 51.300.000 | 8.397.266 | 6.852.661 | 9.425.171 | 75.975.098 |
| **Comprehensive loss:** | | | | | |
| Loss for the year | - | - | - | (9.430.938) | (9.430.938) |
| Other comprehensive income for the year (Notes 22, 24, 33) | - | (9.738) | 524.303 | - | 514.565 |
| Total comprehensive loss for the year | - | (9.738) | 524.303 | (9.430.938) | (8.916.373) |
| **Balance at 31 December 2020** | 51.300.000 | 8.387.528 | 7.376.964 | (5.767) | 67.058.725 |

(1) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, by the end of the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at the rate of 17% will be payable on such deemed dividend to the extent that the shareholders for deemed dividend distribution purposes at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents and domiciled. From 1 March 2019, the deemed dividend distribution is subject to a 1,70% contribution to the National Health System, increased to 2,65% from 1 March 2020, with the exception of April 2020 until June 2020 when the 1,70% rate was applicable. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year by the end of the period of two years from the end of the year of assessment to which the profits refer. This special contribution for defence is paid by the Company for the account of the shareholders.

The notes on pages 17 to 100 form an integral part of the financial statements.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020 € | 2019 € |
|---|---|---|---|
| **Net cash (used in)/from operating activities** | 35 | **(7.923.224)** | 37.978.115 |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 27 | **(688.173)** | (870.983) |
| Purchase of property, plant and equipment | 24 | **(45.317)** | (52.509) |
| Purchase of government bonds and treasury bills | 23 | **(242.923.956)** | (366.153.343) |
| Proceeds from disposal and maturity of government bonds and treasury bills | | **224.174.724** | 370.050.630 |
| Dividend income received | | **124.993** | 88.659 |
| Interest received on debt securities | 23 | **1.587.908** | 1.074.060 |
| **Net cash (used in)/from investing activities** | | **(17.769.821)** | 4.136.514 |
| **Cash flows from financing activities** | | | |
| Payment of principal portion of lease liability | 25 | **(677.573)** | (652.180) |
| Payment of interest portion of lease liability | 25 | **(66.668)** | (126.899) |
| **Net cash used in financing activities** | | **(744.241)** | (779.079) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(26.437.286)** | 41.335.550 |
| **Credit losses on cash and cash equivalents** | | **(384.719)** | 132.313 |
| **Cash and cash equivalents at beginning of the year** | | **274.742.975** | 233.275.112 |
| **Cash and cash equivalents at end of the year** | 36 | **247.920.970** | 274.742.975 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 1. GENERAL INFORMATION

**Country of incorporation**
National Bank of Greece (Cyprus) Limited (the "Bank") is incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its parent and ultimate holding company is National Bank of Greece S.A. and incorporated in Greece.

**Principal activities**
The principal activities of the Bank are the provision of a wide range of banking and financial services.

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

During the current year the Bank adopted all the new and revised International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2020. This adoption did not have a material effect on the accounting policies of the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with IFRSs as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2020 have been adopted by the EU through the endorsement procedure established by the European Commission.

These separate financial statements contain information about National Bank of Greece (Cyprus) Limited as an individual Bank and do not contain consolidated financial information as the parent of a group. The Bank has taken advantage of the exemption under IFRS 10 "Consolidated Financial Statements" and the Cyprus Companies Law, Cap.113 from the requirement to prepare consolidated financial statements as the Bank and its subsidiary are included in the consolidated financial statements of its parent bank, National Bank of Greece S.A., which prepares consolidated and separated financial statements in accordance with International Financial Reporting Standards as adopted by the EU that are available for public use. These consolidated financial statements are available at the National Bank of Greece S.A.'s website (www.nbg.gr).

The financial statements have been prepared on a going concern basis.

The Bank's presentation currency is the Euro (€), which is also the Bank's functional currency.

The financial statements are prepared on a historical cost basis, except for land and buildings, investment properties, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency translation

*Functional and presentation currency*
Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro (€), which is the Bank's functional and presentation currency.

*Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historic cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognised in profit or loss, as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial assets at fair value through other comprehensive income are included in other comprehensive income.

### Revenue

*Recognition and measurement*

Revenue represents the amount of consideration to which the Bank expects to be entitled in exchange for transferring the promised services to the customer, excluding amounts collected on behalf of third parties (for example, value-added taxes); the transaction price. The Bank includes in the transaction price an amount of variable consideration as a result of rebates/discounts only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimations for rebates and discounts are based on the Bank's experience with similar contracts.

The Bank recognises revenue when the parties have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations, the Bank can identify each party's rights and the payment terms for the services to be transferred, the contract has commercial substance (i.e. the risk, timing or amount of the Bank's future cash flows is expected to change as a result of the contract), it is probable that the Bank will collect the consideration to which it will be entitled in exchange for the services that will be transferred to the customer and when specific criteria have been met for each of the Bank's contracts with customers.

The Bank bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In evaluating whether collectability of an amount of consideration is probable, the Bank considers only the customer's ability and intention to pay that amount of consideration when it is due.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue (continued)**

*Identification of performance obligations*

The Bank assesses whether contracts that involve the provision of a range of services contain one or more performance obligations (that is, distinct promises to provide a service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A service that is promised to a customer is distinct if the customer can benefit from the service, either on its own or together with other resources that are readily available to the customer (that is the service is capable of being distinct) and the Bank's promise to transfer the service to the customer is separately identifiable from other promises in the contract (that is, the service is distinct within the context of the contract).

*Fee and commission income*

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, guarantee issue fee and agency fee income whereby the Bank acts as an agent of a third party in entering and completing a transaction on pre-determined terms and conditions.

Fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for processing payment transactions, fees for cash settlements and collection of cash disbursements.

*Rental income*

Rental income arising on operating leases is recognised on a straight-line basis over the lease term.

**Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

*The Bank is the lessee*

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank, with limited exceptions as set out below.

Contracts may contain both lease and non-lease components. The Bank has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases (continued)**

*The Bank is the lessee (continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. Since that rate cannot be readily determined, the NBG Group incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Any remeasurement of the lease liability arising if the cash flows change based on the original terms and conditions of the lease results in a corresponding adjustment to the right-of-use asset. The adjustment can be positive or negative.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Bank revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Bank.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases (continued)**

*The Bank is the lessee (continued)*

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

Right-of-use assets are reviewed for impairment in accordance with the Bank's accounting policy for impairment of non-financial assets.

As an exception to the above, payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Right-of-use assets and associated lease liabilities are presented as separate lines on the face of the balance sheet.

There are no lease where the Bank is the lessor.

**Initial recognition of financial instruments**

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the asset is delivered to the Group. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument. Any change in fair value of the assets classified as financial assets at fair value through profit or loss or at other comprehensive income to be received during the period between the trade date and the settlement date is recognised in profit or loss and in OCI, respectively. However changes in the fair value of assets carried at amortized cost between trade date and settlement date are not recognized.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets – Classification**

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Bank may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For investments in equity instruments that are not held for trading, classification will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

**Financial assets - Recognition and derecognition**

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Bank commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

**Financial assets – Measurement**

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*
Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. The Bank classifies all of its debt instruments at amortised cost.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets – Measurement (continued)**

*Debt instruments (continued)*
Under the amortised cost measurement category, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement. Financial assets measured at amortised cost (AC) comprise: cash and cash equivalents, bank deposits with original maturity over 3 months, Loans and advances to customers, Deposits with Banks, Cash Balances with Central Bank and Financial Assets at amoritsed cost.

*Equity instruments*
The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment, any related balance within the FVOCI reserve is reclassified to retained earnings. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. Dividends from such investments continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "other gains/(losses)" in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

**Financial assets – impairment – credit loss allowance for Expected Credit Loss (ECL)**

The Bank assesses on a forward-looking basis the ECL for all financial assets measured at AC and for the exposure arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "credit losses on other financial assets" and "credit gains/losses on loans and advances to customers".

Debt instruments, loans and advances to customers and other financial assets measured at AC are presented in the balance sheet net of the allowance for ECL. For loan commitments and financial guarantee contracts, a separate provision for ECL is recognised as a liability in the balance sheet.

For debt instruments at FVOCI, an allowance for ECL is recognised in profit or loss and it affects fair value gains or losses recognised in OCI rather than the carrying amount of those instruments.

For all financial assets that are subject to impairment under IFRS 9, the Bank applies the general approach – three stage model for impairment. The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL").

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets – impairment – credit loss allowance for Expected Credit Loss (ECL) (continued)**

If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 39, Credit risk section for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 39, Credit risk section.

**Financial assets – Reclassification**

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

**Financial assets – write-off**

Financial assets are written-off, in whole or in part, when the Bank has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

**Financial assets – modification**

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents for the purposes of the statement of cash flows, consist of balances with less than three months maturity, including cash, unrestricted balances with central bank and amounts due from other banks.

Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

**Interest income and expense calculated using the effective interest method**

Interest income for all financial assets carried at amortised cost and all debt financial assets carried at fair value through other comprehensive income is recognised in the profit or loss using the effective interest method. Interest expense for all interest bearing financial instruments is recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or a shorter period, if appropriate, to the gross carrying amount of a financial asset (i.e. excluding future credit losses) or to the amortised cost of a financial liability. The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The effective interest calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit impaired at initial recognition, the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial assets; and

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired (or "stage 3"), for which interest income is calculated using the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Interest income and expense calculated using the effective interest method (continued)**

When applying the effective interest method, the Bank amortises any fees, points paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the financial instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.

Transaction costs include fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

**Dividend income**

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI.

**Financial guarantee contracts**

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are recognised as a financial liability at the time the guarantee is issued. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee in other income in profit or loss.

At the end of each reporting period, the guarantee is subsequently at the higher of:

- the amount of the loss allowance determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments;* and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers.*

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Credit related commitments**

The Bank issues commitments to provide loans. Commitments to provide loans are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Such loan commitment fees are deferred and included in the carrying amount of the loan on initial recognition. Loan commitments provided by the Bank are measured as the amount of the loss allowance calculated under IFRS 9.

At the end of each reporting period, the commitments are measured at

(i) the remaining unamortised balance of the amount at initial recognition, plus
(ii) the amount of the loss allowance determined based on the expected credit loss model.

For loan commitments (where those components can be separated from the loan), a separate provision for ECL is recognised as a liability in the statement of financial position. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

**Financial liabilities – measurement categories**

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

**Offsetting financial instruments**

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

**Sales and repurchase agreements**

Securities sold under agreements to repurchase at a specific future date ("repos") continue to be recorded in the Bank's balance sheet while the counterparty liability is included in amounts due to other banks or due to customers, as appropriate. The difference between the sale price and repurchase price is recognised as interest expense during the repurchase agreement period using the effective interest rate method.

**Property, plant and equipment**

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Revaluations are performed with sufficient regularity such that the carrying amounts do no differ materially from those that would be determined using fair values at the balance sheet date. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Increases in the carrying amount arising on revaluation of land and buildings are credited in other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to profit or loss.

The property revaluation reserve includes revaluation of property initially used by the Bank for its operations and subsequently transferred to investment properties.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Furniture and equipment and motor vehicles are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The annual depreciation rates used are as follows:

| | |
|---|---|
| Buildings and installations | 3 to 20 |
| Furniture and equipment | 10 to 20 |
| Motor vehicles | 20 |

No depreciation is charged on land.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the income statement of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value as at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. Valuations are carried out by independent qualified valuers applying valuation models.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Bank and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortization and any accumulated impairment losses.

Expenditure which enhances or extends the performance of computer software programmer beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programmer are charged to the income statement of the year in which they were incurred.

Computer software costs are amortised using the straight-line method over their estimated useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use.

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

Useful economic lives and amortisation method are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

### Impairment of non financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

The Bank and the employees contribute to a defined contributions scheme.

Under the defined contributions scheme the Bank and members of staff pay fixed contributions into a separate provident fund. The Bank's contributions are recognised in the period they relate to and included in staff costs in the income statement. The Bank has no further payment obligations once the contributions have been paid.

### Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### Current and deferred income tax

*Current income tax*
Income tax payable/(receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense/(income) for the period except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

The Bank does not offset current income tax liabilities and current income tax assets.

*Deferred income tax*
Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Temporary differences arise from depreciation of property, plant and equipment and amortisation of computer software.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Current and deferred income tax (continued)

*Deferred income tax (continued)*
Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of carry-forward of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to items recognised in other comprehensive income, is also recognised in other comprehensive income.

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

### Special levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on 31st December, 31st March, 30th June and 30th September on qualifying deposits held by each credit institution. The special levy is included in other operating expenses, Note 14.

### Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts. These instruments are initially recognised at fair value and are subsequently remeasured at their fair value. Derivative financial instruments are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative assets and derivative liabilities are included in net profit or loss for the period.

### Provisions

Provisions are recognized when the Bank has: (a) a present obligation (legal or constructive) arising from past events, (b) it is probable that the obligation will result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Bank becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Bank are not provided in advance. Provisions are not recognised for future operating losses.

### Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Other liabilities**

Other liabilities are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

**Deposits from banks and deposits from customers**

Deposits from banks and deposits from customers are recognised initially at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the income statement using the effective interest rate method. Deposits from banks and deposits from customers are derecognised when they are extinguished, that is, when the obligation in discharged.

**Investments in subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

**Related party transactions**

Related parties include the parent and ultimate controlling party, fellow subsidiaries, other group companies under common control, directors and key management personnel, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature within the same category are disclosed on an aggregated basis.

**Comparatives**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where applicable, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 4. NEW ACCOUNTING PRONOUNCEMENTS

At the date of approval of these financial statements a number of new standards, interpretations and amendments to existing standards are effective for annual periods beginning after 1 January 2020 and have not been early applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known/ or reasonably estimable.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
**Year ended 31 December 2020**

**4. NEW ACCOUNTING PRONOUNCEMENTS (continued)**

- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Bank is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known/ or reasonably estimable.
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:
  - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
  - End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
  - Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Bank is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known/ or reasonably estimable.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements the management of the Bank is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates and may cause a material adjustment to the carrying amounts of assets and liabilities.

The estimates and underlying assumptions are reviewed on an ongoing 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 future periods if the revision affects both current and future periods.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

*Expected credit loss measurement (ECL)*

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 39. The following components have a major impact under each segment on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

In assessing LGDs for secured exposures, the Bank considers the range of relevant risk drivers, including: collateral type, geography (location of the collateral) and seniority of the lending exposure. Management exercises its judgement in determining the relevant valuation collateral haircuts used to determine the collateral values for LGD calculation and applied to consider liquidity and quality of pledged assets. When the collateral values exceed the individual credit exposures, the minimum LGD floor is applied for the measurement of ECL.

In its collective assessment model, the Bank uses loan to value (LTV) buckets in order to assign an LGD for each bucket. As at 31 December 2020, if all loans were downgraded by 1 LTV bucket, this would have resulted in additional expected credit losses on loans and advances to customers of €0,6 million (2019: €0,4 million).

*Macroeconomic Scenarios used in ECL measurement*

The Bank determines the ECL, which is a probability-weighted amount by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Macroeconomic inputs and weights per scenario are based on external market data.

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 Management. No qualitative adjustments or overlays were made as at the reporting date.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Bank's ECL as a whole is particularly sensitive. The Bank uses three different economic scenarios.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Macroeconomic Scenarios used in ECL measurement (continued)*

The most significant period - end assumptions relatively to macroeconomic scenarios used for the ECL estimate for the year 2020 are set out below.

The scenarios "base", "optimistic" and "adverse" were used for all portfolios.

| | | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **A. Mortgages and Consumer loans** | | | | | | |
| | | | | ***EUR Billions*** | | |
| ***Consumption*** | Base | 3,5 | 3,6 | 3,7 | 3,8 | 3,8 |
| | Optimistic | 3,5 | 3,7 | 3,8 | 4,0 | 4,0 |
| | Adverse | 3,4 | 3,4 | 3,5 | 3,5 | 3,5 |
| | | | | **%** | | |
| ***HICP*** | Base | 2,0 | 1,0 | 1,7 | 1,8 | 1,8 |
| | Optimistic | 2,6 | 1,6 | 2,2 | 2,2 | 2,2 |
| | Adverse | 0,5 | 0,3 | 1,2 | 1,5 | 1,5 |
| | | | | **%** | | |
| ***Unemployment*** | Base | 7,9 | 7,2 | 6,8 | 6,4 | 6,4 |
| | Optimistic | 7,2 | 6,5 | 6,2 | 5,8 | 5,8 |
| | Adverse | 8,8 | 8,1 | 7,5 | 6,9 | 6,9 |
| | | | | **%** | | |
| **B. Corporate loans** | | | | | | |
| ***GDP*** | Base | 4,0 | 3,6 | 3,2 | 2,6 | 2,6 |
| | Optimistic | 5,2 | 4,4 | 3,9 | 3,3 | 3,3 |
| | Adverse | 2,0 | 1,8 | 1,7 | 1,7 | 1,7 |
| | | | | **%** | | |
| ***CPPI*** | Base | -1,2 | 0,1 | 0,8 | 1,0 | 1,0 |
| | Optimistic | 0,4 | 1,3 | 1,9 | 2,3 | 2,3 |
| | Adverse | -3,2 | -1,6 | -0,5 | 0,2 | 0,2 |

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Macroeconomic Scenarios used in ECL measurement (continued)*

The most significant year-end assumptions relating to macroeconomic scenarios used for the ECL estimate for the year 2019 are set out below. The scenarios "base", "optimistic" and "adverse" were used for all portfolios.

| | | Year | | | | |
|---|---|---|---|---|---|---|
| | | 2020 | 2021 | 2022 | 2023 | 2024 |
| **Mortgages and Consumer loans** | | | | | | |
| | | € Billions | | | | |
| ***Consumption*** | Base | 3.4 | 3.5 | 3.6 | 3.6 | 3.6 |
| | Optimistic | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| | Adverse | 3.3 | 3.4 | 3.5 | 3.5 | 3.5 |
| | | % | | | | |
| ***Harmonised Index of Consumer Prices (HICP)*** | Base | 1,7 | 1,8 | 1,8 | 1,8 | 1,8 |
| | Optimistic | 2 | 1,9 | 1,9 | 1,9 | 1,9 |
| | Adverse | 0,8 | 1,3 | 1,6 | 1,6 | 1,6 |
| | | % | | | | |
| ***Unemployment*** | Base | 9,2 | 8,5 | 7,9 | 7,9 | 7,9 |
| | Optimistic | 8,2 | 7,7 | 7,3 | 7,3 | 7,3 |
| | Adverse | 10 | 9 | 8,3 | 8,3 | 8,3 |
| **Corporate loans** | | | | | | |
| | | % | | | | |
| ***Gross Domestic Product (GDP)*** | Base | 2,2 | 2,2 | 2,2 | 2,2 | 2,2 |
| | Optimistic | 2,7 | 2,5 | 2,3 | 2,3 | 2,3 |
| | Adverse | 1,6 | 1,9 | 2,1 | 2,1 | 2,1 |
| | | % | | | | |
| ***Commercial Property Price Index (CPPI)*** | Base | 2,2 | 2,4 | 2,5 | 2,5 | 2,5 |
| | Optimistic | 2,7 | 2,6 | 2,6 | 2,6 | 2,6 |
| | Adverse | 1 | 1,6 | 2,1 | 2,1 | 2,1 |

The weightings assigned to each economic scenario as at 31 December 2020 were as follows:

| | Base | Optimistic | Adverse |
|---|---|---|---|
| Loans and Advances to Customers | 50% | 20% | 30% |

As at 31 December 2020, if the scenarios weights were changed as per the table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,07 million.

| Base | Optimistic | Adverse |
|---|---|---|
| 50% | 10% | 40% |

As at 31 December 2020, if the scenarios weights were changed as per the below table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,09 million.

| Base | Optimistic | Adverse |
|---|---|---|
| 50% | 5% | 45% |

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Macroeconomic Scenarios used in ECL measurement (continued)*

The weightings assigned to each economic scenarios as at 31 December 2019 were as follows:

| | **Base** | **Optimistic** | **Adverse** |
|---|---|---|---|
| Loans and Advances to Customers | 45% | 35% | 20% |

As at 31 December 2019, if the scenarios weights were changed as per the table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,03 million.

| **Base** | **Optimistic** | **Adverse** |
|---|---|---|
| 45% | 25% | 30% |

As at 31 December 2019, if the scenarios weights were changed as per the below table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,05 million.

| **Base** | **Optimistic** | **Adverse** |
|---|---|---|
| 45% | 20% | 35% |

As at 31 December 2019, if the scenarios weights were changed as per the below table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,02 million.

| **Base** | **Optimistic** | **Adverse** |
|---|---|---|
| 55% | 20% | 25% |

As at 31 December 2020, if unemployment and consumption were changed as per the below tabulated scenarios, this would have resulted in additional expected credit losses on the mortgages and consumer loan portfolios as per the table below:

| | | **Mortgages and Consumer loans** | | |
|---|---|---|---|---|
| | | | **Consumption** | |
| | | **-11,1%** | **No change** | **-28,2%** |
| | **2%** | -19.949 | - | - |
| **Unemployment** | **No Change** | - | - | - |
| | **5%** | - | - | 39.397 |

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Macroeconomic Scenarios used in ECL measurement (continued)*

As at 31 December 2020, if unemployment and Harmonised Index of Consumer Prices (HICP) were changed as per the below tabulated scenarios, this would have resulted in additional expected credit losses on the mortgages and consumer loans and advances to customers as the table below:

| | | Mortgages and Consumer loans | | |
|---|---|---|---|---|
| | | | HICP | |
| | | -5,2% | No change | -13,8% |
| | 2% | 20.907 | - | - |
| Unemployment | No Change | - | - | - |
| | 5% | - | - | 42.197 |

As at 31 December 2020, if Gross Domestic Product (GDP) and Commercial Property Price Index (CPPI) were changed as per the below tabulated scenaria, this would have resulted in additional expected credit losses on the corporate portfolios as per the table below:

| | | Corporate loans | | |
|---|---|---|---|---|
| | | | CPPI | |
| | | -3,2% | No change | -5,2% |
| | -8% | 33.988 | - | - |
| GDP | No Change | - | - | - |
| | -15% | - | - | 64.675 |

As at 31 December 2019, if unemployment and consumption were changed as per the below tabulated scenarios, this would have resulted in additional/(reduced) expected credit losses on the mortgages and consumer loan portfolios as per the table below:

| | | Mortgages and Consumer loans | | |
|---|---|---|---|---|
| | | | Consumption | |
| | | 3,10% | No Change | -3,10% |
| | -5% | -11.523 | - | - |
| Unemployment | No Change | - | - | - |
| | 5% | - | - | 377.875 |

As at 31 December 2019, if unemployment and Harmonised Index of Consumer Prices (HICP) were changed as per the below tabulated scenarios, this would have resulted in additional/(reduced) expected credit losses on the mortgages and consumer loans and advances to customers as the table below:

| | | Mortgages and Consumer loans | | |
|---|---|---|---|---|
| | | | HICP | |
| | | 2,10% | No Change | -2,10% |
| | -5% | -34.525 | - | - |
| Unemployment | No Change | - | - | - |
| | 5% | - | - | 138.316 |

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Macroeconomic Scenarios used in ECL measurement (continued)*

As at 31 December 2019, if Gross Domestic Product (GDP) and Commercial Property Price Index (CPPI) were changed as per the below tabulated scenarios, this would have resulted in additional/(reduced) expected credit losses on the corporate portfolios as per the table below:

| | | Corporate loans | | |
|---|---|---|---|---|
| | | | **CPPI** | |
| | | **2,10%** | **No Change** | **-2,10%** |
| | **2%** | -20.882 | - | - |
| **GDP** | **No Change** | - | - | - |
| | **-2%** | - | - | 283.175 |

*Significant increase in credit risk ("SICR")*

IFRS 9 does not include a definition of significant increase in credit risk. The Bank assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The determination of the relevant thresholds to determine whether a significant increase in credit risk has occurred, involves management judgement.

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of non-financial factors used for the determination of the internal credit risk of the borrower.

*Expected lifetime of revolving facilities*

Judgement is exercised on the measurement period of expected lifetime for revolving facilities. The Bank exercises judgement in determining the period over which ECL should be computed, on the basis of historical experience with respect to the typical average life of such facilities.

*Business model assessment*

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment.

When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimizing potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in a stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Business model assessment (continued)*

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

*Fair value of financial instruments*

The best evidence of fair value is a quoted price in an actively traded market. The fair value of shares and other financial instruments that are not quoted in an active market is determined using valuation models.

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 information on changes in the fair value of bonds, shares and other financial instruments is disclosed in Note 39.

*Income taxes*

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made.

If the final result of the tax statement of the Bank varied by 30% (2019: 30%) from management's expectations due to the uncertainties in the tax treatment of these issues, there would be no significant change in the current tax liabilities because the Bank maintains a significant amount of tax losses which can be utilized against it.

Deferred tax assets are recognised by the Bank in respect of tax losses to the extent that is probable that future taxable profits will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in material adjustment to the carrying amount of deferred tax assets.

The assumptions with greater influence on deferred tax are disclosed in Note 15.

*Fair value of properties held for own use and investment properties*

The properties held by the Bank for own use as well as the investment properties, are measured at fair value less accumulated depreciation and impairment losses. Fair value is determined from valuations undertaken by professionally qualified valuers based on market signals for their existing use and is carried out at regular intervals so that the carrying amount does not differ materially from fair value.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*Fair value of properties held for own use and investment properties (continued)*

In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement and do not rely solely on historical transactional comparable, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

If the estimated value per square meter used in the calculations for the properties held for own use was reduced by 15% the value of the properties would be €1,4m (2019: €1,5m) lower, with an equivalent impact in the income statement.

If the estimated value per square meter used in the calculations for investment properties was reduced by 15% the value of the building would have been €0,6m (2019: €0,6m) lower, with an equivalent impact in the income statement.

More information on inputs used is disclosed in Notes 24 and 26.

- **Determination of the lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For property leases, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and branches leases have been included in the lease liability, because the Bank could not replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

## 6. INTEREST INCOME

| | 2020 € | 2019 € |
|---|---|---|
| Loans and advances to customers at amortised cost | **8.525.359** | 10.711.776 |
| Deposits with banks and central bank at amortised cost | **1.066.351** | 1.375.941 |
| Investment in bonds at amortised cost (Note 23) | **1.765.819** | 1.379.008 |
| | **11.357.529** | 13.466.725 |

Interest income from loans and advances to customers includes interest on the net carrying amount of impaired loans and advances to customers amounting to € 1.807.255 (2019: €1.745.592).

## 7. INTEREST EXPENSE

| | 2020 € | 2019 € |
|---|---|---|
| Deposits and other customer accounts at amotised cost | **556.904** | 1.418.985 |
| Deposits from banks at amortised cost | **30.238** | 215.089 |
| | 587.142 | 1.634.074 |

## 8. FEE AND COMMISSION INCOME

| | 2020 € | 2019 € |
|---|---|---|
| Fees | **824.432** | 1.058.664 |
| Commissions | **2.886.774** | 2.775.947 |
| | **3.711.206** | 3.834.611 |

The Bank's fee and commission income are primarily recognised at a point in time.

## 9. NET FOREIGN EXCHANGE GAINS

Net foreign exchange gains comprises the translation of monetary assets in foreign currency at the end of the reporting period, realised exchange gains or losses from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

## 10. OTHER INCOME

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Dividend income | **124.993** | 88.659 |
| Other income | **1.508.878** | 3.591.268 |
| | **1.633.871** | 3.679.927 |

The "other income" during year 2019 included a one-off income amounting to €2 million relating to the compensation receivable by the Bank in relation to an expropriation of land owned by the Bank from the Cyprus Government.

## 11. OTHER LOSSES

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Loss on revaluation of investment property (Note 26) | **164.500** | 202.000 |
| Fair value loss on equity investments classified as fair value through profit or loss | **2.080** | 1.222 |
| | **166.580** | 203.222 |

## 12. IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Impairment loss/(reversal of impairment losses) on balances with banks – ECL | **(384.719)** | 132.313 |
| Impairment loss/(reversal of impairment losses) on other financial assets at amortised cost – ECL | **(47.934)** | 37.168 |
| | **(432.653)** | 169.481 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 13. STAFF COSTS

| | 2020 € | 2019 € |
|---|---|---|
| Salaries | **11.847.740** | 11.758.191 |
| Employer's contributions | **2.031.808** | 1.834.734 |
| Provident fund contributions | **1.124.907** | 1.077.897 |
| Other staff expenses | **450.244** | 494.447 |
| | **15.454.699** | 15.165.269 |

The number of staff employed by the Bank as of 31 December 2020 was 246 (2019: 249). The average number of staff employed by the Bank for 2020 was 247 (2019: 254).

The bank operates a defined contribution plan.

Based on the agreement signed in June 2014, the Bank's contribution to the provident fund was 12%, which was revised to 9,75% from January 2017.

## 14. OTHER OPERATING EXPENSES

| | 2020 € | 2019 € |
|---|---|---|
| Occupancy costs | **484.250** | 451.129 |
| Rentals | **29.220** | - |
| Advertising and marketing | **148.234** | 321.812 |
| Repairs and maintenance | **1.059.956** | 1.096.073 |
| Other operating expenses | **2.414.311** | 1.355.796 |
| Special levy on deposits (1) | **856.733** | 909.100 |
| | **4.992.704** | 4.133.910 |

(1) According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on 31st December, 31st March, 30th June and 30th September on qualifying deposits held by each credit institution.

The total fees charged by the Bank's statutory auditor for the statutory audit of the annual financial statements of the Bank for the year ended 31 December 2020 amounted to €45.000 exclusive of VAT (2019: €45.000 exclusive of VAT). The total fees charged by the Bank's statutory auditor for the year ended 31 December 2020 for other assurance services amounted to NIL (2019: €15.000, exclusive of VAT) and for tax advisory services amounted to €3.000, exclusive of VAT (2019: €3.000, exclusive of VAT).

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 15. INCOME TAX

### (a) Tax recognised in profit or loss:

| | 2020 € | 2019 € |
|---|---|---|
| Current tax: | | |
| - Corporation tax | **1.206.848** | 5.000 |
| - Withholding tax credit (refund) | **(1.923.907)** | - |
| Total current tax | (717.059) | 5.000 |
| Deferred tax charge/(credit) | 2.954.147 | (67.417) |
| Total income tax charge/(credit) | 2.237.088 | (62.417) |

The tax on the Bank's loss before the tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

| | 2020 € | 2019 € |
|---|---|---|
| Loss before tax | (7.193.850) | (1.463.013) |
| Tax calculated at the applicable corporation tax rate of 12,5% | **(899.231)** | (182.877) |
| Tax effect of expenses not deductible for tax purposes | **1.630.315** | 245.487 |
| Tax effect of allowances and income not subject to tax | **(252.089)** | (125.027) |
| Withholding tax credit (refund) | **(1.923.907)** | - |
| Impairment of deferred tax asset | **3.682.000** | - |
| **Income tax charge/(credit)** | 2.237.088 | (62.417) |

The Bank is subject to income tax on taxable profits, at the rate of 12,5%.

As from tax year 2012 brought forward losses of only five years may be utilised.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014. In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 15. INCOME TAX (continued)

### (b) Deferred income tax assets and liabilities

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred income tax liabilities**

| | Difference between depreciation and wear and tear allowance<br>€ | Revaluation of land and buildings<br>€ | Total<br>€ |
|---|---|---|---|
| At 1 January 2019 | 401.279 | 1.325.936 | **1.727.215** |
| Charged to: | | | |
| Profit or loss | 91.080 | - | **91.080** |
| At 31 December 2019/1 January 2020 | 492.359 | 1.325.936 | **1.818.295** |
| Charged to: | | | |
| Profit or loss | 4.988 | - | **4.988** |
| At 31 December 2020 | 497.347 | 1.325.936 | **1.823.283** |

**Deferred income tax assets**

| | Tax losses<br>€ | Total<br>€ |
|---|---|---|
| At 1 January 2019 | 6.268.900 | 6.268.900 |
| Credited to: | | |
| Profit or loss | 158.498 | 158.498 |
| At 31 December 2019/1 January 2020 | **6.427.398** | **6.427.398** |
| Charged to: | | |
| Profit or loss | (2.949.159) | (2.949.159) |
| **At 31 December 2020** | **3.478.239** | **3.478.239** |

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The assessment of the recognition of a deferred tax asset is a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period. The Bank performed its assessment for the recoverability of the deferred tax asset as at 31 December 2020 and 31 December 2019 taking into account the Bank's actual and historic performance, the key objectives of the Bank's strategy, the macroeconomic environment in Cyprus, the impact of tax legislations enacted as at the reporting date and the detailed financial business plan approved by the Board, up to the end of 2025.

## 15. INCOME TAX (continued)

### (b) Deferred income tax assets and liabilities (continued)

The financial projections have taken into account the key objectives of the Bank's strategy which are set out below:

- Manage the level of NPEs loans;
- Maintain an appropriate capital position by internally generating capital;
- Expansion in the Cyprus market; and
- Deliver value to its shareholder.

The key assumptions taken into consideration, amongst others, include the following:

- Increase in new loan originations mainly through referrals of the parent Bank;
- Improvement in net interest income, mainly driven by the increase of loans to deposits ratio, reduction in the deposits cost and management of liquidity surplus;
- Increase in fee and commission income; and
- Sustainment of the cost of risk, supported by asset quality improvement and growth of the Cyprus economy.

The above assumptions are based on both internal and external information for attributing a value to each key assumption in the deferred tax asset forecasts.

The internal key variables include, amongst others, the Bank's strategy, plans and planned actions for (i) expansion of certain business lines and income streams, (ii) capital and liquidity management, (iii) cost management, (iv) cost of funding and (v) pricing of deposits and loans.

External key variables mainly include the interest rate evolution which impacts the business activity of the Bank, the Cypriot macroeconomic performance unemployment levels, tourist industry and the changes in the regulatory framework.

The recoverability assessment performed at 31 December 2019 did not result in an impairment loss. The recoverability assessment as at 31 December 2020 resulted in an impairment loss of €3,7 million as described above.

The Bank has performed sensitivity analysis as at 31 December 2020 and 31 December 2019 on the following key assumptions of DTA recoverability assessment for relevant years (depending on loss expiry dates). The table below shows the impact on DTA carrying value from the below described sensitivity analysis.

| | Impact on deferred tax asset carrying amount | |
|---|---|---|
| | **2020** | **2019** |
| | **€** | **€** |
| **Key assumption** | | |
| Reduction of yield on customer loans and advances by 20 bps | **(169.389)** | (123.532) |
| Increase in cost of customer deposits by 20 bps | **(187.337)** | (277.327) |
| Lower new loans origination by 20% of the forecasted growth | **(392.573)** | (247.568) |

## 16. CASH, BALANCES AND MANDATORY DEPOSITS WITH CENTRAL BANK OF CYPRUS

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Cash in hand | **14.611.711** | 13.247.095 |
| Balances with the Central Bank of Cyprus: | | |
| - due within three months | **123.104.917** | 42.087.143 |
| Total gross | **137.716.628** | 55.334.238 |
| ECL allowance | **(82.599)** | (45.642) |
| Total: net of ECL allowance | **137.634.029** | 55.288.596 |

Cash and balances with central banks are classified as current.

Mandatory deposits with central banks represent the minimum level of average monthly deposits which the Bank is required to maintain. Mandatory balances with central banks can be withdrawn at any time provided the average monthly minimum deposits are maintained.

Analysed as:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Cash and balances with Central Bank of Cyprus | **132.221.161** | 49.202.111 |
| Mandatory deposits with Central Bank of Cyprus | **5.412.868** | 6.086.485 |
| | **137.634.029** | 55.288.596 |

## 17. DEPOSITS WITH OTHER BANKS

| | 2020 € | 2019 € |
|---|---|---|
| Interbank accounts | **18.305.335** | 39.011.436 |
| Money market placements | **16.298.590** | - |
| Total gross | **34.603.925** | 39.011.436 |
| ECL allowance | **(172.580)** | (182.528) |
| Total: net of ECL allowance | **34.431.345** | 38.828.908 |

The maturity of the above balances is presented below:

| | 2020 € | 2019 € |
|---|---|---|
| Due within three months | **34.440.856** | 38.833.314 |
| Between three months and one year | **163.069** | 178.122 |
| Total gross | **34.603.925** | 39.011.436 |
| ECL allowance | **(172.580)** | (182.528) |
| Total: net of ECL allowance | **34.431.345** | 38.828.908 |

The fair value of the above balances approximates their carrying amount.

Placements with banks bear interest which is based on the interbank rate of the relevant term and currency.

Deposits with other banks are classified as "financial assets at amortised cost".

## 18. INVESTMENT IN SUBSIDIARY

The subsidiary company and its principal activity are described below:

| **Name** | **Participation** | **Principal activities** | **2020 €** | **2019 €** |
|---|---|---|---|---|
| National Securities Cyprus Limited | **100%** | Dormant company | **1.709** | 1.709 |

National Securities Cyprus Limited is registered in Cyprus.

## 19. LOANS AND ADVANCES TO CUSTOMERS

| | 2020 € | 2019 € |
|---|---|---|
| Loans and advances to customers – at amortised cost | **223.791.157** | 253.333.758 |
| Hire purchase and leasing debtors – at amortised cost | **-** | 16.423 |
| Total: gross | **223.791.157** | 253.350.181 |
| ECL allowance on loans and advances to customers at amortised cost (Note 21) | **(14.492.157)** | (12.985.218) |
| Total: net of ECL allowance | **209.299.000** | 240.364.963 |

The transfer of certain of the Bank's loans to the Cyprus branch of the parent bank during 2019 are disclosed in Note 37.

The analysis of gross advances based on their remaining contractual maturity at 31 December is presented below:

| | 2020 € | 2019 € |
|---|---|---|
| Due within three months | **91.160.452** | 122.875.534 |
| Between three months and one year | **8.756.695** | 8.827.426 |
| Between one and five years | **40.974.476** | 41.861.292 |
| Over five years | **82.899.534** | 79.785.929 |
| Total: Gross | **223.791.157** | 253.350.181 |

The analyses of advances by industry sector is presented below:

| | 2020 € | 2019 € |
|---|---|---|
| Trade and services | **83.460.580** | 102.234.933 |
| Construction | **29.327.054** | 34.619.620 |
| Manufacturing | **21.368.249** | 22.468.017 |
| Tourism | **9.799.918** | 9.592.520 |
| Retail | **56.239.181** | 59.724.628 |
| Other | **23.596.175** | 24.710.463 |
| Total: Gross | **223.791.157** | 253.350.181 |

Analysis by geographical area:

| | 2020 € | 2019 € |
|---|---|---|
| Cyprus | **216.060.888** | 243.303.151 |
| Greece | **3.066.499** | 3.915.514 |
| Other countries | **4.663.770** | 6.131.516 |
| Total: Gross | **223.791.157** | 253.350.181 |

The fair value of loans and other advances to customers approximates their carrying amount at the balance sheet date. Loans and advances to customers are categorized as "financial assets at amortised cost".

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 20. BALANCES WITH RELATED BANKS

### (a) Deposits with related banks

| | 2020 € | 2019 € |
|---|---|---|
| National Bank of Greece S.A. (parent bank) | **81.176.354** | 186.661.908 |
| ECL allowance | **(388.457)** | (800.183) |
| Total: net of ECL allowance | **80.787.897** | 185.861.725 |

The maturity of the above balances is presented below:

| | 2020 € | 2019 € |
|---|---|---|
| Due within three months | **81.176.354** | 186.661.908 |
| ECL allowance | **(388.457)** | (800.183) |
| Total: net of ECL allowance | **80.787.897** | 185.861.725 |

The fair value of the above balances approximates their carrying amount.

### (b) Deposits from related banks

| | 2020 € | 2019 € |
|---|---|---|
| National Bank of Greece S.A. (parent bank) | **5.612.232** | 4.828.072 |
| | **5.612.232** | 4.828.072 |

The maturity of the above balances is presented below.

| | 2020 € | 2019 € |
|---|---|---|
| Due within three months | **5.612.232** | 4.828.072 |
| | **5.612.232** | 4.828.072 |

The fair value of the above balances approximates their carrying amount.

## 21. ECL ALLOWANCE ON LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

| | € |
|---|---|
| Balance at 1 January 2019 | 15.897.453 |
| Reversal of impairment losses for the year | (83.303) |
| Write offs against provisions | (39.724) |
| Provisions on transferred portfolio (Note 37) | (3.078.558) |
| Provision on accrued interest for interest income not recognized | 289.350 |
| Balance at 31 December 2019 (Note 19) | 12.985.218 |
| Impairment losses for the year | 1.668.329 |
| Write offs against provisions | (433.827) |
| Provision on accrued interest for interest income not recognised | 272.437 |
| **Balance at 31 December 2020 (Note 19)** | 14.492.157 |

Amounts recognised in profit or loss:

| | **2020** € | **2019** € |
|---|---|---|
| Impairment charge/(reversal) for ECL on loans and advances to customers at amortised cost | **1.668.329** | (83.303) |

During the years ended 31 December 2020 and 2019 the Bank has not written off any loans and advances that are subject to enforcement rights.

## 22. FINANCIAL ASSETS – INVESTMENTS IN EQUITY SECURITIES

(a) Equity investments at fair value through other comprehensive income (FVOCI) comprise the following:

| | 2020 € | 2019 € |
|---|---|---|
| *Listed equity securities:* | | |
| Master Card International Incorporation | **6.142.662** | 5.618.359 |
| *Unlisted equity securities:* | | |
| JCC Payment Systems Ltd | **1.044.488** | 1.044.488 |
| **Equity investments at fair value through other comprehensive income** | **7.187.150** | 6.662.847 |

The movement of financial assets at FVOCI is as follows:

| | 2020 € | 2019 € |
|---|---|---|
| Carrying amount at 1 January | **6.662.847** | 4.419.365 |
| Net gain from changes in fair value recognised in OCI | **524.303** | 2.243.482 |
| Carrying amount at 31 December | **7.187.150** | 6.662.847 |

(b) Equity investments at fair value through profit or loss (FVPL) comprise the following:

| | 2020 € | 2019 € |
|---|---|---|
| *Listed equity securities:* | | |
| Bank of Cyprus Public Company Ltd | **3.131** | 5.212 |
| **Financial assets at fair value through profit or loss** | **3.131** | 5.212 |

## 23. OTHER FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost include the following debts investments:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Cyprus government bonds and treasury bills | **166.114.896** | 146.946.453 |
| ECL allowance | **(111.423)** | (159.357) |
| Total: net of ECL allowance | **166.003.473** | 146.787.096 |

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Listed on the Cyprus Stock Exchange | **137.432.131** | 146.946.453 |
| Listed on the Italian Stock Exchange | **28.682.765** | - |
| ECL allowance | **(111.423)** | (159.357) |
| Total: net of ECL allowance | **166.003.473** | 146.787.096 |

The maturity of the above investments is presented below:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Within three months | **26.607.644** | 86.065.069 |
| Between three months and one year | **49.923.505** | - |
| Between one and five years | **24.659.697** | 24.693.799 |
| Over five years | **64.924.050** | 36.187.585 |
| Total: Gross carrying amount | **166.114.896** | 146.946.453 |
| ECL allowance | **(111.423)** | (159.357) |
| Total: net of ECL allowance | **166.003.473** | 146.787.096 |

The movement of financial assets at amortised cost is as follows:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| At 1 January | **146.787.096** | 150.366.162 |
| Additions | **242.923.956** | 366.153.343 |
| Maturities and redemptions | **(223.774.067)** | (369.878.000) |
| Interest accrued (Note 6) | **1.765.819** | 1.379.008 |
| Interest received | **(1.587.908)** | (1.074.060) |
| ECL allowance | **(111.423)** | (159.357) |
| At 31 December | **166.003.473** | 146.787.096 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 24. PROPERTY, PLANT AND EQUIPMENT

| | Land, Buildings and installations | Motor Vehicles | Furniture and equipment | Total |
|---|---|---|---|---|
| | € | € | € | € |
| **Cost or valuation** | | | | |
| 1 January 2019 | 10.098.813 | 193.722 | 4.453.194 | **14.745.729** |
| Additions | - | - | 52.509 | **52.509** |
| Write offs/disposals | - | - | (15.191) | **(15.191)** |
| Revaluation | 215.000 | - | - | **215.000** |
| 31 December 2019/1 January 2020 | 10.313.813 | 193.722 | 4.490.512 | **14.998.047** |
| Additions | - | - | 45.317 | **45.317** |
| Revaluations | (106.825) | - | - | **(106.825)** |
| 31 December 2020 | 10.206.988 | 193.722 | 4.535.829 | **14.936.539** |
| **Accumulated depreciation** | | | | |
| 1 January 2019 | 103.258 | 182.559 | 4.074.330 | **4.360.147** |
| Charge for the year | 103.258 | 3.853 | 160.558 | **267.669** |
| Write offs/disposals | - | - | (15.191) | **(15.191)** |
| 31 December 2019/1 January 2020 | 206.516 | 186.412 | 4.219.697 | **4.612.625** |
| Charge for the year | 103.258 | 3.798 | 132.755 | **239.811** |
| Revaluation | (97.087) | - | - | **(97.087)** |
| 31 December 2020 | 212.687 | 190.210 | 4.352.452 | **4.755.349** |
| **Net book value** | | | | |
| 31 December 2020 | 9.994.301 | 3.512 | 183.377 | **10.181.190** |
| 31 December 2019 | 10.107.297 | 7.310 | 270.815 | **10.385.422** |

*Fair value measurement of the Bank's freehold land and buildings*

The Bank's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Bank's land and buildings are performed by independent valuers not related to the Bank. The valuers have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The fair value of the properties was determined using the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flow approach that reflects the annual return or potential return of the investor from the property held. The fair value of the land and buildings has been determined at the average value based on the valuations carried out by the Bank's two independent property valuers.

The Bank adopted a valuation technique using unobservable inputs. Accordingly, the fair value was classified as Level 3.

There has been no change to the valuation technique during the year.

The valuation levels are defined as follows:

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

## 24. PROPERTY, PLANT AND EQUIPMENT (continued)

Details of the Bank's land and buildings and information about the fair value hierarchy as at 31 December are as follows:

| | Quoted prices in active markets for identical assets (level 1) 2020 € | Significant other observable inputs (level 2) 2020 € | Significant unobservable inputs (level 3) 2020 € | Total 2020 € |
|---|---|---|---|---|
| Land | - | - | **6.519.000** | **6.519.000** |
| Buildings | - | - | **3.131.000** | **3.131.000** |
| | - | - | **9.650.000** | **9.650.000** |

| | Quoted prices in active markets for identical assets (level 1) 2019 € | Significant other observable inputs (level 2) 2019 € | Significant unobservable inputs (level 3) 2019 € | Total 2019 € |
|---|---|---|---|---|
| Land | - | - | 6.750.000 | 6.750.000 |
| Buildings | - | - | 3.227.500 | 3.227.500 |
| | - | - | 9.977.500 | 9.977.500 |

### Information about fair value measurements using significant unobservable inputs (Level 3) – 31 December 2020

| Description | Fair value at 31 December 2020 € | | Valuation technique(s) | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|---|
| Land and office building – Nicosia | Land 6.019.000 | Office building 2.980.000 | Market comparable approach | Price per square meter | Approximately €350 - €650 for basements, €4.400 for ground floor and mezzanine (new building) and €8.000 for ground floor and mezzanine (preserved building) | The higher the price per square meter, the higher the fair value |

## 24. PROPERTY, PLANT AND EQUIPMENT (continued)

Details of the Bank's land and buildings and information about the fair value hierarchy as at 31 December 2020 are as follows:

| Description | Fair value at 31 December 2020 € | | Valuation technique(s) | Rental value € | Discount rate | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|---|---|---|
| | Land | Office building | | | | | | |
| Land and office building – Larnaca | 500.000 | 151.000 | Market comparable approach | N/A | N/A | Price per square meter | €1.300 for mezzanine floor and €3.800 for ground floor | The higher the price per square meter, the higher the fair value. |
| | | | Discounted cash flow approach | 42.000 | 6,5% | Discount rate | | The higher the discount rate, the lower the fair value |

**Information about fair value measurements using significant unobservable inputs (Level 3) – 31 December 2019**

| Description | Fair value at 31 December 2019 € | | Valuation technique(s) | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|---|
| | Land | Office building | | | | |
| Land and office building – Nicosia | 6.247.500 | 3.052.500 | Market comparable approach | Price per square meter | Approximately €350 - €650 for basements, €4.500 for ground floor and mezzanine (new building) and €8.300 for ground floor and mezzanine (preserved building) | The higher the price per square meter, the higher the fair value |

## 24. PROPERTY, PLANT AND EQUIPMENT (continued)

| Description | Fair value at 31 December 2019 € | | Valuation technique(s) | Rental value € | Discount rate | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|---|---|---|
| Land and office building – Larnaca | Land 502.500 | Office building 175.000 | Market comparable approach | N/A | N/A | Price per square meter | €1.500 for mezzanine floor and €3.900 for ground floor | The higher the price per square meter, the higher the fair value. |
| | | | Discounted cash flow approach | 45.000 | 6,5% | Discount rate | | The higher the discount rate, the lower the fair value |

## 25. RIGHT-OF-USE ASSET

This note provides information for leases where the Bank is a lessee. The Bank has no leases where it is the lessor.

### (i) The Bank's leasing arrangements

The Company leases various offices and branches. Rental contracts are typically made for fixed periods of 2 years to 8 years, but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

### (ii) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

| | **2020** | 2019 |
|---|---|---|
| | **€** | € |
| **Right-of-use assets** | | |
| Buildings | **2.196.355** | 3.054.955 |
| Total | **2.196.355** | 3.054.955 |
| **Lease liabilities** | | |
| Current | **620.280** | 754.035 |
| Non-current | **1.733.251** | 2.390.231 |
| **Total** | **2.353.531** | 3.144.266 |

There were no additions to the right-of-use assets during the 2020 financial year.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 25. RIGHT-OF-USE ASSET (continued)

### (iii) Amounts recognised in profit or loss

The income statement shows the following amounts relating to leases:

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| **Depreciation charge of right-of-use assets** | | |
| Buildings | **771.939** | 807.453 |
| **Total** | **771.939** | 807.453 |
| Interest expense (included in finance cost) | **66.001** | 127.075 |
| **Total** | **66.001** | 127.075 |

The total cash outflow for leases in 2020 was €744.241 (2019: €779.079).

## 26. INVESTMENT PROPERTY

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Balance at 1 January | **4.004.500** | 4.206.500 |
| Fair value loss (Note 11) | **(164.500)** | (202.000) |
| Balance at 31 December | **3.840.000** | 4.004.500 |

The Bank's investment property is measured at fair value. Changes in fair values are recognised in profit or loss.

The fair value measurement of the Bank's investment property as at 31 December 2020 and 31 December 2019 has been derived on the basis of a valuation carried out on the respective dates by independent valuers not related to the Bank. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flow approach that reflects the annual return or potential return of the investor from the property held.

As at 31 December 2020 and 2019, the fair value of the land and buildings has been determined at the average value based on the valuations carried out by the Bank's two independent property valuers.

There has been no change to the valuation technique during the year.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 26. INVESTMENT PROPERTY (continued)

Details of the Bank's investment property and information about the fair value hierarchy as at 31 December are as follows:

| | Level 3 2020 € | Fair value 2020 € |
|---|---|---|
| Land | **2.150.000** | **2.150.000** |
| Buildings | **1.690.000** | **1.690.000** |
| | **3.840.000** | **3.840.000** |

| | Level 3 2019 € | Fair value 2019 € |
|---|---|---|
| Land | 2.200.000 | 2.200.000 |
| Buildings | 1.804.500 | 1.804.500 |
| | 4.004.500 | 4.004.500 |

**Information about fair value measurement using significant unobservable inputs (Level 3) – 31 December 2020**

| **Description** | **Fair value at 31 December 2020 €** Land | Office building | **Valuation technique** | **Rental value €** | **Discount rate %** | **Unobservable inputs** | **Range of unobservable inputs (probability – weighted average)** | **Relationship of unobservable inputs to fair values** |
|---|---|---|---|---|---|---|---|---|
| Land and office building – Limassol | 2.150.000 | 1.690.000 | Market comparable approach | N/A | N/A | Price per square meter | Approximately €175 for basement, €3.000 for ground floor and €850 - €1.150 for mezzanine floor | The higher the price per Square meter, the Higher the fair value |
| | | | Discounted cash flows approach | 160.740 | 5,5% | Discount rate | N/A | The higher the discount Rate, the lower the fair value |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 26. INVESTMENT PROPERTY (continued)

**Information about fair value measurement using significant unobservable inputs (Level 3) – 31 December 2019**

| Description | Fair value at 31 December 2019 € | | Valuation technique | Rental value € | Discount rate % | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|---|---|---|
| Land and office building – Limassol | Land 2.200.00 | Office building 1.804.500 | Market comparable approach | N/A | N/A | Price per square meter | Approximately €180 for basement, €3.000 - €3.100 for ground floor and €850 - €1.150 for mezzanine floor | The higher the price per Square meter, the Higher the fair value |
| | | | Discounted cash flows approach | 160.740 | 5% | Discount rate | N/A | The higher the discount Rate, the lower the fair value |

## 27. INTANGIBLE ASSETS

| | Computer software € |
|---|---|
| **At 1 January 2019** | |
| Cost | 11.450.703 |
| Accumulated amortisation | (6.733.091) |
| Net book amount | 4.717.612 |
| **Year ended 31 December 2019** | |
| Opening net book amount | 4.717.612 |
| Additions | 870.983 |
| Amortisation charge | (546.384) |
| Closing net book amount | 5.042.211 |
| **At 31 December 2019** | |
| Cost | 12.321.686 |
| Accumulated amortisation | (7.279.475) |
| Net book amount | 5.042.211 |
| **Year ended 31 December 2020** | |
| Opening net book amount | **5.042.211** |
| Additions | **688.173** |
| Amortisation charge | **(618.667)** |
| Closing net book amount | **5.111.717** |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 27. INTANGIBLE ASSETS (continued)

| | Computer software |
|---|---|
| **At 31 December 2020** | € |
| Cost | **13.009.859** |
| Accumulated amortisation | **(7.898.142)** |
| | **5.111.717** |

## 28. OTHER ASSETS

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| **Financial assets** | | |
| Debtors and other receivables | **2.422.397** | 4.512.545 |
| Fair value of derivatives (1) | **75.704** | 34.299 |
| | **2.498.101** | 4.546.844 |
| **Non-financial assets** | | |
| Prepaid expenses | **248.921** | 278.847 |
| **Total other assets** | **2.747.022** | 4.825.691 |

(1) Forward foreign exchange contracts
The nominal value of the outstanding forward foreign exchange contracts at 31 December 2020 was €3million (2019: €2 million).

## 29. DEPOSITS FROM OTHER BANKS

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Interbank borrowing | **12.271.766** | 16.944.584 |

The maturity of the above balances is presented below:

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Due within three months | **3.777.754** | 6.618.489 |
| Between three months and one year | - | 771.341 |
| Over five years | **8.494.012** | 9.554.754 |
| | **12.271.766** | 16.944.584 |

The fair value of the above balances approximates their carrying amount.

## 30. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

| | 2020 € | 2019 € |
|---|---|---|
| Time and notice accounts | **233.505.930** | 263.624.666 |
| Demand and current accounts | **202.373.439** | 220.752.502 |
| Savings accounts | **130.567.671** | 113.205.160 |
| | **566.447.040** | 597.582.328 |

**Analysis by geographical area**

| | 2020 € | 2019 € |
|---|---|---|
| Cyprus | **459.479.091** | 475.703.078 |
| Greece | **71.465.138** | 80.493.912 |
| Other countries | **35.502.811** | 41.385.338 |
| | 566.447.040 | 597.582.328 |

The fair value of the above balances approximates their carrying amount.

The maturity analysis of the above mentioned balances is presented below:

| | 2020 € | 2019 € |
|---|---|---|
| Due within three months | **473.408.225** | 495.704.375 |
| Between three months and one year | **93.038.815** | 101.877.953 |
| | 566.447.040 | 597.582.328 |

## 31. OTHER LIABILITIES

| | 2020 € | 2019 € |
|---|---|---|
| **Financial liabilities** | | |
| Amounts due to suppliers | **101.251** | 414.421 |
| Receipts on behalf of third parties | **524.191** | 713.674 |
| Cheques – drafts payable | **1.675.846** | 1.046.473 |
| Fair value of derivatives | - | 1.304 |
| Other liabilities | **4.177.714** | 5.206.273 |
| Provisions for Off-Balance Sheet exposures | **184.353** | 286.516 |
| | **6.663.355** | 7.668.661 |
| **Non-financial liabilities** | | |
| Provision for staff unpaid leave | **278.898** | 556.425 |
| Value added tax payable | **112.041** | 316.645 |
| Provisions for litigations, claims and complaints | **246.262** | 160.763 |
| | **637.201** | 1.033.833 |
| **Total other liabilities** | **7.300.556** | 8.702.494 |

## 32. SHARE CAPITAL

| | 2020 Shares | 2020 € | 2019 Shares | 2019 € |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of Euro 1,71 each | **30.000.000** | **51.300.000** | 30.000.000 | 51.300.000 |
| Issued and fully paid | | | | |
| Ordinary shares of Euro 1,71 each | **30.000.000** | **51.300.000** | 30.000.000 | 51.300.000 |

## 33. REVALUATION RESERVES

| | Land and buildings € | Financial assets at FVTOCI € | Total € |
|---|---|---|---|
| **Balance at 1 January 2019** | **8.182.266** | **4.609.179** | **12.791.445** |
| Gain from change in fair value | 215.000 | 2.243.482 | 2.458.482 |
| **Balance at 31 December 2019/1 January 2020** | **8.397.266** | **6.852.661** | **15.249.927** |
| Gains/(losses) from changes in fair value (Notes 22 and 24) | (9.738) | 524.303 | 514.565 |
| **Balance at 31 December 2020** | **8.387.528** | **7.376.964** | **15.764.492** |

## 34. CONTINGENT LIABILITIES AND COMMITMENTS

The nominal value of the contingencies and commitments as at 31 December are presented below:

| | 2020 € | 2019 € |
|---|---|---|
| Acceptances and Endorsements | **274.744** | 1.130.781 |
| Letters of Guarantee | **16.655.741** | 18.531.597 |
| Letters of Credit | **2.951.883** | 2.373.563 |
| Customers' credit limits that have been approved but have not been used | **105.741.407** | 97.175.340 |
| | **125.623.775** | 119.211.281 |

Letters of credit and guarantees are offset by corresponding obligations of third parties.

**Pending litigations and claims**

As at 31 December 2020 and 31 December 2019 there were pending litigations against the Bank in connection with its activities. Based on legal advice the Management believes that there is adequate defense against all claims and it is not possible that the Bank will suffer any significant damage over and above any amounts already provided as disclosed in Note 31. Provision amounts recognized primarily relate to outstanding industrial and/or trade union disputes in relation to which the Management expects economic outflows that approximate the provision amounts recognized. The Management is unable to reliably estimate the exact timing of such outflows, the majority of which depend on the timing of final court decisions whose determination is by nature uncertain.

## 35. NET CASH FROM OPERATING ACTIVITIES

| | Note | 2020 € | 2019 € |
|---|---|---|---|
| Loss before taxation | | **(7.193.850)** | (1.463.013) |
| Depreciation of property, plant and equipment | 24 | **239.811** | 267.669 |
| Depreciation of right-of-use assets | 25 | **771.939** | 807.453 |
| Amortisation of intangible assets | 27 | **618.667** | 546.384 |
| Provision for unused vacation | | **81.050** | 16.512 |
| Impairment losses/(reversal of impairment losses) on loans and advances to customers | 21 | **1.668.329** | (83.303) |
| Profit from derivative financial instruments | | **(42.709)** | (11.019) |
| Loss on revaluation of investment property | 26 | **164.500** | 202.000 |
| Dividend income | 10 | **(124.993)** | (88.659) |
| Interest income on debt securities | 6 | **(1.765.819)** | (1.379.008) |
| (Reversal of impairment loss) / Impairment loss on other financial assets at amortised cost | 12 | **(47.934)** | 37.168 |
| Loss from fair value through profit or loss equity investment | 11 | **2.080** | 1.222 |
| | | **(5.628.929)** | (1.146.594) |
| Decrease in loans and other advances to customers | | **29.397.634** | 20.702.418 |
| (Decrease)/increase in deposits and other customer accounts | | **(31.135.288)** | 10.137.016 |
| Decrease/(increase) in deposits with other banks | | **15.053** | (3.360) |
| Decrease/(increase) in obligatory balances with Central Bank of Cyprus | | **673.617** | (318.264) |
| (Decrease)/increase in deposits from other banks | | **(4.672.818)** | 8.584.620 |
| Increase in deposits from related banks | | **784.160** | 4.018.934 |
| Decrease/(increase) in other assets | | **2.121.378** | (2.325.480) |
| Decrease in other liabilities | | **(1.401.938)** | (1.671.175) |
| **Net cash (used in) / generated from operations** | | **(9.847.131)** | 37.978.115 |
| Withholding tax credit refund received | 15 | **1.923.907** | - |
| **Net cash (used in) / generated from operating activities** | | **(7.923.224)** | 37.978.115 |

## 36. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents

| | 2020 € | 2019 € |
|---|---|---|
| Cash in hand (Note 16) | **14.611.711** | 13.247.095 |
| Non-obligatory balances with Central Bank of Cyprus | **117.692.049** | 36.000.658 |
| Deposits with related banks – due within three months | **81.176.354** | 186.661.908 |
| Deposits with other banks – due within three months | **34.440.856** | 38.833.314 |
| | **247.920.970** | 274.742.975 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 36. CASH AND CASH EQUIVALENTS (continued)

For the purpose of preparing the statement of cash flows, the maturities of cash equivalents relating to the balances with related and other banks and with the Central Bank of Cyprus, are based on their original contractual maturity.

## 37. RELATED PARTY TRANSACTIONS

The parent and ultimate holding company (and also the Ultimate Controlling Party) of the Bank is National Bank of Greece S.A., a company registered in Greece, which prepares consolidated financial statements available for public use. The consolidated financial statements of National Bank of Greece S.A. are available at the National Bank of Greece S.A, website (www.nbg.gr) and its registered office is located at Eolou 86, 10232 Athens, Greece.

Details of transactions between the Bank and other related parties are disclosed below.

**Trading transactions**

During the year, the Bank entered into the following trading transactions with related parties:

| | Interest & other income | | Interest & other expense | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **€** | **€** | **€** | **€** |
| National Bank of Greece S.A. – parent bank | **2.468.905** | 1.962.036 | **129.964** | 169.337 |
| Subsidiaries of National Bank of Greece S.A | **847.961** | 878.620 | **717.420** | 886.850 |

**Balances with related companies**

The following balances were payable to related parties at the end of the reporting period:

| | **2020** | **2019** |
|---|---|---|
| | **€** | **€** |
| **Deposits and other customer accounts** | | |
| National Securities S.A.-related party under common control | **12.398** | 12.463 |
| NBG Management Services Limited-related party under common control | **867.001** | 2.365.159 |
| Ethniki Insurance (Cyprus) Limited-related party under common control | **5.967.755** | 4.966.012 |
| Ethniki General Insurance (Cyprus) Limited-related party under common control | **2.895.214** | 3.772.666 |
| National Securities (Cyprus) Limited-subsidiary | **1.912** | 1.912 |
| CAC Coral Limited – related party under common control | **4.746.454** | 3.365.843 |
| | **14.490.734** | 14.484.055 |

Deposits with and from related banks are presented in Note 20 to the financial statements.

## 37. RELATED PARTY TRANSACTIONS (continued)

**Other transactions**

(i) On 31 December 2019, the Bank assigned to the Cyprus branch of the parent bank loans and advances to customers of net book value €12,2 (with gross amount €15.2 and ECL provisions €3.0) million for consideration of an equivalent amount, at no gain, no loss.

(ii) The parent bank, National Bank of Greece S.A., had issued a letter of guarantee of €15,9 million in favour of the Bank that supported the recoverability of the outstanding loan granted to NBG Leasing SRL. The guarantee expired on 31 July 2018 and was renewed until 31 July 2019. The remaining amount of €10,4 million was secured through a cash collateral lien agreement with the parent bank. This loan was no longer on the Bank's balance sheet as at 31 December 2018.

(iii) **Key management personnel related transactions**

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| Loans and advances to members of the Board of Directors and connected persons | **447** | 653 |
| Deposits of members of the Board of Directors and connected persons | **59.356** | 84.522 |
| Interest expense | **103** | - |

Connected persons include spouses, minor children and companies in which Directors or key management personnel hold, directly or indirectly, at least 20% of the voting shares.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. All transactions with key management personnel are made on the same terms as those applicable to the rest of the Bank's employees.

The remuneration of Directors and other members of key management during the year was as follows:

| | 2020<br>€ | 2019<br>€ |
|---|---|---|
| **Fees paid to Directors as members of the Board** | **96.000** | 86.588 |
| **Executive Directors emoluments** | | |
| Salaries and other short-term benefits | **179.089** | 145.690 |
| Employer's contributions | **719** | 6.116 |
| | **179.808** | 151.806 |
| **Total compensation** | **275.808** | 238.394 |

## 38. OPERATING ENVIRONMENT OF THE BANK

In the first quarter of 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. The COVID-19 pandemic has caused a significant global economic downturn which has adversely affected, and is expected to continue to adversely affect, the Bank's business and results of operations. The evolution of the disease and its economic impact remains highly uncertain.

Cyprus economy facing significant challenges in view of the important role of services in economic activity and its relatively shallow production structure (high dependence on imports). The backdrop of ongoing downward revisions of growth forecasts for the global economy and the euro area, in conjunction with Cyprus' high dependency on inbound tourism, pose significant downside risks to Cyprus GDP growth in 2021. The future impacts of the COVID-19 pandemic on the Cyprus and/or global economy and the Bank's business, results of operations and financial condition remain uncertain.

Due to COVID-19 pandemic, authorities implement numerous measures attempting to contain the spread and impact of COVID-19. New entry regulations have been applied with regards to protecting the population from a further spread of the disease which tightened the entry of individuals to the Republic of Cyprus within the year. Additionally, a considerable number of private businesses operating in various sectors of the economy closed for a period of time while a number of lockdown measures, such as the prohibition of unnecessary movements, restrictions on travelling and the suspension of operations of retail companies (subject to certain exemptions), were applied throughout the year. The measures were continuously revised (lifted or tightened) by the Republic of Cyprus by taking into consideration the epidemic status in the country. The objective of these public policy measures was to contain the spread of COVID-19 outbreak and have resulted in minor operational disruption for the Bank.

These measures severely restrict economic activity, businesses, market participants, our counterparties and customers as well as the Cyprus and/or global economy for a prolonged period of time. More specifically, industries such as tourism, hospitality and entertainment have been directly disrupted significantly by these measures. Other industries, such as manufacturing and financial services, have also been indirectly affected. Depending on how the situation develops and the duration of the disruption, there is the potential for the associated economic slowdown to impact expected credit losses. It is also possible that the Bank may experience reductions from lower lending and transaction volumes, which may impact the Risk Weighted Assets and capital position. However, these risks will be partly offset by a set of measures provided in 2020 and continued in 2021.

More specifically, certain measures have been taken by the Republic of Cyprus since then with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

Management is taking necessary measures to ensure sustainability of the Bank's operations. The Bank's priority is always the well-being of our customers and staff. Therefore, we have invoked our business continuity plans to help ensure the safety and well-being of our staff, as well as our capability to support our customers and maintain our business operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

## 39. RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. The Bank's overall risk management policies focus on the unpredictability of financial markets and seek to minimise the potential adverse effects on the Bank's financial performance, financial position and cash flows.

### a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk arises mainly from loans and advances to banks, customers and loan commitments, but can also arise from financial guarantees, investments in debt securities and other exposures resulting from its trading activities including derivatives, other financial assets and balance with central banks.

The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank's exposure and the credit ratings of its counterparties are regularly monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits approved by the Bank and which are reviewed and approved at least on an annual basis.

The loan portfolio is assessed on the basis of customer creditworthiness, the sector of the economy in which the customer operates and the country of operation and is regularly examined by the Bank's Internal Audit department.

*Credit concentration risk*

Credit concentration risk arises from exposures to each counterparty, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity. The following categories of credit concentration risk are recognized by the Bank:

- Single-name concentrations (including group of connected clients);
- Industry concentrations;
- Geographical concentrations;
- Collateral and guarantees concentration.

For the purposes of managing and monitoring concentration risks the Bank has established appropriate limits, a monitoring and reporting framework as well as appropriate measures and methodologies for the allocation of capital as mitigant.

*Maximum exposure to credit risk and collateral and other credit enhancements*

The main types of collateral obtained by the Bank for loans and advances to customers are mortgages of properties, blocked deposits, bank guarantees, pledges of equity securities of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees.

Collateral held as security for other financial assets is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Maximum exposure to credit risk and collateral and other credit enhancements (continued)*

The table below represents the maximum exposure to credit risk, the tangible and measurable collateral and other credit enhancements held as well as the net exposure to credit risk. Personal guarantees are an additional form of collateral, but are not included in the information below as their fair value cannot be easily and accurately estimated.

| | | Fair value of collateral and credit enhancements held by the Bank | | | | | |
|---|---|---|---|---|---|---|---|
| | Maximum exposure to credit risk € | Cash € | Securities € | Property € | Other € | Total collateral € | Net exposure to credit risk € |
| **2020** | | | | | | | |
| Balances with Central Bank of Cyprus | 123.022.318 | - | - | - | - | - | 123.022.318 |
| Deposits with banks | 115.219.242 | - | - | - | - | - | 115.219.242 |
| Loans and advances to customers | 209.299.000 | 13.022.899 | 1.699 | 130.641.691 | 4.250.682 | 147.916.971 | 61.382.029 |
| Debt securities at amortised cost | 166.003.473 | - | - | - | - | - | 166.003.473 |
| Other financial assets | 2.498.101 | - | - | - | - | - | 2.498.101 |
| On-balance sheet total | 616.042.134 | 13.022.899 | 1.699 | 130.641.691 | 4.250.682 | 147.916.971 | 468.125.163 |
| Contingent liabilities and commitments | | | | | | | |
| Acceptances and endorsements | 274.744 | | | | | | |
| Letters of guarantee | 16.655.741 | | | | | | |
| Letters of credit | 2.951.883 | | | | | | |
| Undrawn credit lines and other commitments to lend | 105.741.407 | | | | | | |
| Off-balance sheet total | 125.623.775 | | | | | | |
| Total credit risk exposure | 741.665.909 | | | | | | |

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported on the balance sheet.

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Maximum exposure to credit risk and collateral and other credit enhancements (continued)*

| | Maximum exposure to credit risk € | Fair value of collateral and credit enhancements held by the Bank Cash € | Securities € | Property € | Other € | Total collateral € | Net exposure to credit risk € |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| Balances with Central Bank of Cyprus | 42.041.501 | - | - | - | - | - | 42.041.501 |
| Deposits with banks | 212.532.261 | - | - | - | - | - | 212.532.261 |
| Loans and advances to customers | 240.364.963 | 14.686.869 | 1.528 | 143.217.077 | 5.076.925 | 162.982.399 | 77.382.564 |
| Debt securities at amortised cost | 146.787.096 | - | - | - | - | - | 146.787.096 |
| Other financial assets | 4.546.844 | - | - | - | - | - | 4.546.844 |
| On-balance sheet total | 646.272.665 | 14.686.869 | 1.528 | 143.217.077 | 5.076.925 | 162.982.399 | 483.290.266 |
| Contingent liabilities and commitments | | | | | | | |
| Acceptances and endorsements | 1.130.781 | | | | | | |
| Letters of guarantee | 18.531.597 | | | | | | |
| Letters of credit | 2.373.563 | | | | | | |
| Undrawn credit lines and other commitments to lend | 97.175.340 | | | | | | |
| Off-balance sheet total | 119.211.281 | | | | | | |
| Total credit risk exposure | 765.483.946 | | | | | | |

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported on the balance sheet.

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Forborne exposures*

The credit tools commonly used by the Bank to manage liquidity problems faced by its clients in the repayment of their debts is the restructuring of their finances by renegotiating the current terms of the loan agreement.

Regulation EU no. 575/2013 established the framework for prudential requirements on the management by credit institutions of loans arrears and non-performing loans.

The European Banking Authority (EBA) published in 2014 its technical standards with respect to non-performing and forborne exposures. Exposures include all debt instruments (loans and advances and debt securities) and off-balance sheet exposures, except those held for trading exposures.

According to the EBA technical standards, forborne exposures are those debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor (including part of total refinancing of a debt contract) which aim to address existing or anticipated difficulties on the part of the debtor to service debt in accordance with the current repayment schedule. Changes in the terms and conditions of a contract that do not occur because the customer is not able to meet the terms and conditions of the contract due to financial difficulties do not constitute forbearance measures.

The most significant prerequisite for the forbearance of an exposure is the existence of customer repayment ability i.e. the customer is viable.

The forbearance measures to be taken and their duration thereof are determined on the basis of specific customer information, based on the prevailing economic conditions and in accordance with relevant legislation or regulatory Directives.

Every effort is being taken by the Bank for the proper assessment of the new repayment schedule on the basis of the forbearance measures, in order to avoid a new default.

The below tables present the Bank's forborne exposures in accordance with the EBA technical standards, the tangible and measurable collateral and other credit enhancements held and the net exposure to credit risk.

| | **Maximum exposure to credit risk €** | **Fair value of collateral €** | **Net exposure to credit risk €** |
|---|---|---|---|
| **2020** | | | |
| Stage 2 | **11.441.975** | **5.283.976** | **6.157.999** |
| Stage 3 | **24.594.678** | **23.170.097** | **1.424.581** |
| | **36.036.653** | **28.454.073** | **7.582.580** |

| | **Maximum exposure to credit risk €** | **Fair value of collateral €** | **Net exposure to credit risk €** |
|---|---|---|---|
| **2019** | | | |
| Stage 2 | 16.445.574 | 15.516.572 | 929.002 |
| Stage 3 | 27.500.311 | 26.027.863 | 1.472.448 |
| | 43.945.885 | 41.544.435 | 2.401.450 |

**39. RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

*Other financial assets at amortised cost*
Other financial assets at amortised cost include loans and advances to customers, financial assets at amortised costs, cash and balances with Central Bank of Cyprus, Deposits with other and related banks.

The Bank considers the probability of default upon initial recognition of financial asset at amortised cost and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower/counterparty;
- significant increases in credit risk on other financial instruments of the same borrower/counterparty;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Bank has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Bank. Where loans or receivables have been written off, the Bank continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Bank uses three categories for loans, receivables, other receivables, debt securities at FVOCI which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit rating companies, such as Standard and Poor, Moody's and Fitch.

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit quality of loans and other advances to customers*

A summary of the assumptions underpinning the Company's expected credit loss model is as follows:

| *Category* | *Company definition of category* | *Basis for recognition of expected credit loss provision* | *Basis for calculation of interest revenue* |
|---|---|---|---|
| Performing | Counterparties have a low risk of default and a strong capacity to meet contractual cash flows. | Stage 1: 12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. | Gross carrying amount |
| Underperforming | Counterparties for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail) as well as any breach on the recorded 12 month and lifetime PD thresholds and ratings downgrades. In addition the forbearance status is considered. | Stage 2: Lifetime expected losses | Gross carrying amount |
| Non-performing | Interest and/or principal repayments are 90 days past due. Also the contamination rule (pulling effect) is in place with regards to corporate portfolio. | Stage 3: Lifetime expected losses | Amortised cost carrying amount (net of credit allowance) |

Over the term of the loans and advances to customers, financial assets at amortised cost, cash and balance with Central Bank of Cyprus, Deposits with other and related banks, the Bank accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Bank considers historical loss rates for each category of customers, and adjusts for forward looking macroeconomic data.

The Bank provides for credit losses against loans and advances to customers, financial assets at amortised cost, cash and balances with Central Bank of Cyprus, Deposits with other and related banks. The following tables contains an analysis of the credit risk exposure of each class of financial instruments for which an ECL allowance is recognised. The gross carrying amounts below also represents the Bank's maximum exposure to credit risk on these assets as at 31 December 2020 and 31 December 2019.

The following tables analyse the Bank's loans and advances in accordance with internal credit rating category.

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit quality of loans and other advances to customers (continued)*

**Loans and advances to customers**

| Bank's internal credit rating - RMIII | Gross carrying amount € | Credit loss allowance € | Carrying amount (net of impairment provision) € |
|---|---|---|---|
| A1 | 49.300.158 | 176.614 | 49.123.544 |
| A2 | 27.838.870 | 241.925 | 27.596.945 |
| B1 | 19.396.231 | 246.537 | 19.149.694 |
| B2 | 11.321.916 | 140.238 | 11.181.678 |
| C1 | 15.528.961 | 77.219 | 15.451.742 |
| C2 | 7.446.559 | 48.539 | 7.398.020 |
| D1 | 9.653.167 | 121.945 | 9.531.222 |
| D2 | 14.198.252 | 591.434 | 13.606.818 |
| E1 | 6.361.035 | 140.639 | 6.220.396 |
| E2 | 892.981 | 67.648 | 825.333 |
| F | 42.010.608 | 11.419.628 | 30.590.980 |
| **Total as at 31 December 2020** | 203.948.738 | 13.272.366 | 190.676.372 |

| Bank's internal credit rating – Empirical Model[1] | Gross carrying amount € | Credit loss allowance € | Carrying amount (net of impairment provision) € |
|---|---|---|---|
| LOW | 1.410.604 | 7.008 | 1.403.596 |
| MEDIUM | 2.013.883 | 19.851 | 1.994.032 |
| CONSIDERABLE | 3.720.612 | 800 | 3.719.812 |
| HIGH | 3.924.597 | 1.332 | 3.923.265 |
| D | 8.772.723 | 1.190.800 | 7.581.923 |
| **Total as at 31 December 2020** | 19.842.419 | 1.219.791 | 18.622.628 |
| | | | |
| **Total portfolio as at 31 December 2020** | 223.791.157 | 14.492.157 | 209.299.000 |

[1] The Empirical Model is used by the Bank with regard to business entities falling under Special Lending such as project finance lending, object finance lending, commodities finance lending and income-producing real estate lending.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit quality of loans and other advances to customers (continued)*

| Bank's internal credit rating | Gross carrying amount € | Credit loss allowance € | Carrying amount (net of impairment provision) € |
|---|---|---|---|
| A1 | 70.351.067 | 200.259 | 70.150.808 |
| A2 | 22.486.064 | 117.862 | 22.368.202 |
| B1 | 26.417.014 | 286.459 | 26.130.555 |
| B2 | 10.060.174 | 78.042 | 9.982.132 |
| C1 | 24.518.632 | 75.106 | 24.443.526 |
| C2 | 12.534.922 | 148.755 | 12.386.167 |
| D1 | 11.445.394 | 127.554 | 11.317.840 |
| D2 | 14.475.091 | 667.510 | 13.807.581 |
| E1 | 11.143.653 | 1.595.325 | 9.548.328 |
| E2 | 9.248.203 | 161.482 | 9.086.721 |
| F | 40.669.967 | 9.526.864 | 31.143.103 |
| **Total as at 31 December 2019** | 253.350.181 | 12.985.218 | 240.364.963 |

**Cash and balances with Central Bank of Cyprus**

| Internal credit assessment | Expected credit loss rate | Gross carrying amount (€) | (ECL) € | Carrying amount (net of impairment provision) (€) |
|---|---|---|---|---|
| Performing | 0,067% | 123.104.917 | (82.599) | 123.022.318 |
| Underperforming | N/A | - | - | - |
| Not performing | N/A | - | - | - |
| Write off | N/A | - | - | - |
| **Total as at 31 December 2020** | | **123.104.917** | **(82.599)** | **123.022.318** |

**Due from other and related banks**

| Internal credit assessment | Expected credit loss rate | Gross carrying amount (€) | (ECL) (€) | Carrying amount (net of impairment provision) (€) |
|---|---|---|---|---|
| Performing | 0,485% | 115.780.279 | (561.037) | 115.219.242 |
| Underperforming | N/A | - | - | - |
| Not performing | N/A | - | - | - |
| Write off | N/A | - | - | - |
| **Total as at 31 December 2020** | | **115.780.279** | **(561.037)** | **115.219.242** |

**Financial assets at amortised cost – Cyprus Government bonds and treasury bills**

| Internal credit assessment | Expected credit loss rate | Gross carrying amount (€) | (ECL) (€) | Carrying amount (net of impairment provision) (€) |
|---|---|---|---|---|
| Performing | 0,067% | 166.114.896 | (111.423) | 166.003.473 |
| Underperforming | N/A | - | - | - |
| Not performing | N/A | - | - | - |
| Write off | N/A | - | - | - |
| **Total as at 31 December 2020** | | **166.114.896** | **(111.423)** | **166.003.473** |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

**39. RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

*Credit quality of loans and other advances to customers (continued)*

**Cash and balances with Central Bank of Cyprus**

| Internal credit assessment | Expected credit loss rate | Gross carrying amount (€) | (ECL) € | Carrying amount (net of impairment provision) (€) |
|---|---|---|---|---|
| Performing | 0,108% | 42.087.143 | (45.642) | 42.041.501 |
| Underperforming | N/A | - | - | - |
| Not performing | N/A | - | - | - |
| Write off | N/A | - | - | - |
| **Total as at 31 December 2019** | | **42.087.143** | **(45.642)** | **42.041.501** |

**Due from other and related banks**

| Internal credit assessment | Expected credit loss rate | Gross carrying amount (€) | (ECL) (€) | Carrying amount (net of impairment provision) (€) |
|---|---|---|---|---|
| Performing | 0,435% | 225.673.344 | (982.711) | 224.690.633 |
| Underperforming | N/A | - | - | - |
| Not performing | N/A | - | - | - |
| Write off | N/A | - | - | - |
| **Total as at 31 December 2019** | | **225.673.344** | **(982.711)** | **224.690.633** |

**Financial assets at amortised cost – Cyprus Government bonds and treasury bills**

| Internal credit assessment | Expected credit loss rate | Gross carrying amount (€) | (ECL) (€) | Carrying amount (net of impairment provision) (€) |
|---|---|---|---|---|
| Performing | 0,108% | 146.946.453 | (159.357) | 146.787.096 |
| Underperforming | N/A | - | - | - |
| Not performing | N/A | - | - | - |
| Write off | N/A | - | - | - |
| **Total as at 31 December 2019** | | **146.946.453** | **(159.357)** | **146.787.096** |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – total loans*

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans to customers between the beginning and the end of the year ended 2020:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2020** | 1.448.647 | 283.599 | 11.252.973 | 12.985.219 | 177.282.730 | 28.958.056 | 47.109.395 | 253.350.181 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (484.222) | 1.075.716 | - | 591.494 | (28.128.536) | 28.128.536 | - | - |
| Transfer from Stage 1 to Stage 3 | (85.371) | - | 361.123 | 275.752 | (1.296.882) | - | 1.296.882 | - |
| Transfer from Stage 2 to Stage 1 | 6.487 | (119.180) | - | (112.693) | 7.489.522 | (7.489.522) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (17.721) | 98.026 | 80.305 | - | (4.755.420) | 4.755.420 | - |
| Transfer from Stage 3 to Stage 1 | 516 | - | (20.257) | (19.741) | 23.855 | - | (23.855) | - |
| Transfer from Stage 3 to Stage 2 | - | 4.331 | (7.679) | (3.348) | - | 326.233 | (326.233) | - |
| New financial assets originated or purchased | 9.236 | 78.692 | 159 | 88.087 | 2.241.116 | 3.204.303 | 532.799 | 5.978.218 |
| Changes in PDs/LGDs/EADs | (289.929) | 25.584 | 1.128.540 | 864.195 | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 4.790.231 | 1.872.689 | 2.058.823 | 8.721.743 |
| Write offs | (48) | (660) | (528.843) | (529.551) | (48) | (660) | (528.843) | (529.551) |
| Other movements | - | - | - | - | (36.430.833) | (3.060.392) | (4.238.207) | (43.729.433) |
| Provision of accrued interest not recognised | 1.366 | 1.467 | 269.605 | 272.438 | - | - | - | - |
| **Closing balances as at 31 December 2020** | 606.682 | 1.331.828 | 12.553.647 | 14.492.157 | 125.971.155 | 47.183.823 | 50.636.179 | 223.791.157 |

* Stage 3 exposures may shift to stage 2 if obligations are met for a continuous period of 12 months

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – mortgage loans*

The following table discloses the changes in the credit loss allowances and gross carrying amount for loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2020** | 23.198 | 130.272 | 2.452.214 | 2.605.684 | 26.445.783 | 5.764.226 | 15.476.765 | 47.686.774 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (88) | 66 | - | (22) | (27.855) | 27.855 | - | - |
| Transfer from Stage 1 to Stage 3 | (398) | - | 1.700 | 1.302 | (334.918) | - | 334.918 | - |
| Transfer from Stage 2 to Stage 1 | 4.347 | (89.447) | - | (85.100) | 4.354.976 | (4.354.976) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (259) | 55.311 | 55.052 | - | (120.751) | 120.751 | - |
| New financial assets originated or purchased | 1.087 | 2.029 | (17) | 3.099 | 1.624.437 | 714.140 | 54.621 | 2.393.198 |
| Changes in PDs/LGDs/EADs | (9.350) | (37.225) | 519.153 | 472.578 | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 764.139 | 44.019 | 652.361 | 1.460.519 |
| Write offs | (44) | (660) | (367.433) | (368.137) | (44) | (660) | (367.433) | (368.137) |
| Other movements | - | - | - | - | (3.336.609) | 206.474 | (2.968.595) | (6.098.730) |
| Provision of accrued interest not recognised | - | 441 | 102.251 | 102.692 | - | - | - | - |
| **Closing balances as at 31 December 2020** | 18.752 | 5.217 | 2.763.179 | 2.787.148 | 24.489.909 | 2.280.327 | 13.303.388 | 45.073.624 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – consumer loans*

The following table discloses the changes in the credit loss allowances and gross carrying amount for loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2020** | 116.730 | 43.867 | 202.633 | 363.230 | 10.211.866 | 909.764 | 916.223 | 12.037.853 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (2.816) | 22.522 | - | 19.706 | (173.036) | 173.036 | - | - |
| Transfer from Stage 1 to Stage 3 | (1.977) | - | 42.967 | 40.990 | (49.822) | - | 49.822 | - |
| Transfer from Stage 2 to Stage 1 | 1.836 | (29.089) | - | (27.253) | 387.435 | (387.435) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (1.533) | 8.976 | 7.443 | - | (200.998) | 200.998 | - |
| Transfer from Stage 3 to Stage 1 | 462 | - | (4.066) | (3.604) | 4.664 | - | (4.664) | - |
| Transfer from Stage 3 to Stage 2 | - | 87 | (7.000) | (6.913) | - | 27.591 | (27.591) | - |
| New financial assets originated or purchased | 3.782 | 8.729 | - | 12.511 | 447.720 | 506.340 | - | 954.060 |
| Changes in PDs/LGDs/EADs | (27.046) | (1.553) | 23.199 | (5.400) | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 330.379 | 28.717 | 72.999 | 432.095 |
| Write offs | (4) | - | (3.380) | (3.384) | (4) | - | (3.380) | (3.384) |
| Other movements | - | - | - | - | (2.061.718) | (116.391) | (77.918) | (2.256.027) |
| Provision for accrued interest not recognised | 560 | 1.008 | 17.947 | 19.515 | - | - | - | - |
| **Closing balances as at 31 December 2020** | 91.527 | 44.038 | 281.276 | 416.831 | 9.097.484 | 940.624 | 1.126.489 | 11.164.597 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – corporate loans*

The following table discloses the changes in the credit loss allowances and gross carrying amount for loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2020** | 1.308.719 | 109.460 | 8.598.126 | 10.016.305 | 140.625.081 | 22.284.066 | 30.716.405 | 193.625.552 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (481.318) | 1.053.128 | - | 571.810 | (27.927.645) | 27.927.645 | - | - |
| Transfer from Stage 1 to Stage 3 | (82.996) | - | 316.456 | 233.460 | (912.142) | - | 912.142 | - |
| Transfer from Stage 2 to Stage 1 | 304 | (644) | - | (340) | 2.747.111 | (2.747.111) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (15.929) | 33.739 | 17.810 | - | (4.433.671) | 4.433.671 | - |
| Transfer from Stage 3 to Stage 1 | 54 | - | (16.191) | (16.137) | 19.191 | - | (19.191) | - |
| Transfer from Stage 3 to Stage 2 | - | 4.244 | (679) | 3.565 | - | 298.642 | (298.642) | - |
| New financial assets originated or purchased | 4.367 | 67.934 | 176 | 72.477 | 168.959 | 1.983.823 | 478.178 | 2.630.960 |
| Changes in PDs/LGDs/EADs | (253.533) | 64.362 | 586.188 | 397.017 | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 3.695.713 | 1.799.953 | 1.333.463 | 6.829.129 |
| Write offs | - | - | (158.030) | (158.030) | - | - | (158.030) | (158.030) |
| Other movements | - | - | - | - | (31.032.506) | (3.150.475) | (1.191.694) | (35.374.675) |
| Provision for accrued interest not recognised | 806 | 18 | 149.404 | 150.228 | - | - | - | - |
| **Closing balances as at 31 December 2020** | 496.403 | 1.282.573 | 9.509.192 | 11.288.168 | 87.383.762 | 43.962.872 | 36.206.301 | 167.552.936 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – total loans*

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2019** | 1.754.279 | 3.467.688 | 10.675.486 | 15.897.453 | 184.020.151 | 42.625.367 | 50.236.013 | 276.881.531 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (25.952) | 109.450 | - | 83.498 | (3.079.375) | 3.079.375 | - | - |
| Transfer from Stage 1 to Stage 3 | (134.498) | - | 253.318 | 118.820 | (2.533.695) | - | 2.533.695 | - |
| Transfer from Stage 2 to Stage 1 | 9.662 | (94.484) | - | (84.822) | 3.946.254 | (3.946.254) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (29.263) | 35.107 | 5.844 | - | (2.433.906) | 2.433.906 | - |
| Transfer from Stage 3 to Stage 2 | - | 28.708 | (64.469) | (35.761) | - | 7.080.319 | (7.080.319) | - |
| New financial assets originated or purchased | 42.671 | 61.101 | 208 | 103.980 | 15.982.589 | 8.100.596 | 338 | 24.083.523 |
| Financial assets derecognized during the period | - | (3.078.557) | - | (3.078.557) | - | (15.236.930) | - | (15.236.930) |
| Changes in PDs/LGDs/EADs | (195.243) | (183.938) | 144.083 | (235.098) | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 7.266.074 | 1.374.232 | 2.015.073 | 10.655.379 |
| Write offs | (5.605) | - | (73.879) | (79.484) | (5.605) | - | (73.879) | (79.484) |
| Other movements | - | - | - | - | (28.313.663) | (11.684.743) | (2.955.432) | (42.953.837) |
| Provision for accrued interest not recognised | 3.333 | 2.894 | 283.119 | 289.346 | - | - | - | - |
| **Closing balances as at 31 December 2019** | 1.448.647 | 283.599 | 11.252.973 | 12.985.218 | 177.282.730 | 28.958.056 | 47.109.395 | 253.350.181 |

* Stage 3 exposures may shift to stage 2 if obligations are met for a continuous period of 12 months.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – mortgages loans*

The following table discloses the changes in the credit loss allowance and gross carrying amount for mortgage loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2019** | 87.913 | 70.104 | 1.815.027 | 1.973.044 | 22.825.346 | 4.634.196 | 15.956.100 | 43.415.642 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (3.363) | 65.057 | - | 61.694 | (943.866) | 943.866 | - | - |
| Transfer from Stage 1 to Stage 3 | (56.949) | - | 42.470 | (14.479) | (171.079) | - | 171.079 | - |
| Transfer from Stage 2 to Stage 1 | 1.400 | (43.054) | - | (41.654) | 1.459.331 | (1.459.331) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (15.018) | 15.980 | 962 | - | (460.368) | 460.368 | - |
| Transfer from Stage 3 to Stage 2 | - | 4.802 | (651) | 4.151 | - | 638.293 | (638.293) | - |
| New financial assets originated or purchased | 1.377 | 23.900 | - | 25.277 | 6.725.064 | 1.116.502 | - | 7.841.566 |
| Changes in PDs/LGDs/EADs | (7.187) | 24.229 | 475.314 | 492.356 | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 643.763 | 140.782 | 724.684 | 1.509.229 |
| Write offs | - | - | (3.000) | (3.000) | - | - | (3.000) | (3.000) |
| Other movements | - | - | - | - | (4.092.776) | 210.286 | (1.194.173) | (5.076.663) |
| Provision for accrued interest not recognized | 7 | 252 | 107.074 | 107.333 | - | - | - | - |
| **Closing balances as at 31 December 2019** | 23.198 | 130.272 | 2.452.214 | 2.605.684 | 26.445.783 | 5.764.226 | 15.476.765 | 47.686.774 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – consumer loans*

The following table discloses the changes in the credit loss allowance and gross carrying amount for consumer loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2019** | 131.904 | 67.680 | 269.509 | 469.093 | 9.961.511 | 1.070.708 | 1.211.286 | 12.243.505 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (2.813) | 28.164 | - | 25.351 | (226.200) | 226.200 | - | - |
| Transfer from Stage 1 to Stage 3 | (2.294) | - | 23.669 | 21.375 | (39.001) | - | 39.001 | - |
| Transfer from Stage 2 to Stage 1 | 4.294 | (34.729) | - | (30.435) | 302.161 | (302.161) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (10.172) | 18.287 | 8.115 | - | (181.862) | 181.862 | - |
| Transfer from Stage 3 to Stage 2 | - | 1.117 | (6.405) | (5.288) | - | 237.604 | (237.604) | - |
| New financial assets originated or purchased | 4.189 | 245 | 222 | 4.656 | 1.311.686 | 25.741 | 338 | 1.337.765 |
| Changes in PDs/LGDs/EADs | (19.928) | (8.974) | (102.042) | (130.944) | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 368.926 | 58.571 | 67.752 | 495.249 |
| Write offs | (1.800) | - | (17.481) | (19.281) | (1.800) | - | (17.481) | (19.281) |
| Other movements | - | - | - | - | (1.465.417) | (225.037) | (328.931) | (2.019.385) |
| Provision for accrued interest not recognized | 3.178 | 536 | 16.874 | 20.588 | - | - | - | - |
| **Closing balances as at 31 December 2019** | 116.730 | 43.867 | 202.633 | 363.230 | 10.211.866 | 909.764 | 916.223 | 12.037.853 |

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Loans and advances to customers – corporate loans*

The following table discloses the changes in the credit loss allowance and gross carrying amount for corporate loans to customers between the beginning and the end of the reporting period:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € | Stage 1 12 month ECL, € | Stage 2 Lifetime ECL, € | Stage 3 Lifetime ECL € | Total, € |
| **Opening balances at 1 January 2019** | 1.534.462 | 3.329.904 | 8.590.950 | 13.455.316 | 151.233.294 | 36.920.463 | 33.068.627 | 221.222.384 |
| **Transfers:** | | | | | | | | |
| Transfer from Stage 1 to Stage 2 | (19.776) | 16.229 | - | (3.547) | (1.909.309) | 1.909.309 | - | - |
| Transfer from Stage 1 to Stage 3 | (75.255) | - | 187.179 | 111.924 | (2.323.615) | - | 2.323.615 | - |
| Transfer from Stage 2 to Stage 1 | 3.968 | (16.701) | - | (12.733) | 2.184.762 | (2.184.762) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (4.073) | 840 | (3.233) | - | (1.791.676) | 1.791.676 | - |
| Transfer from Stage 3 to Stage 2 | - | 22.789 | (57.413) | (34.624) | - | 6.204.422 | (6.204.422) | - |
| New financial assets originated or purchased | 37.105 | 36.956 | (14) | 74.047 | 7.945.839 | 6.958.353 | - | 14 904.192 |
| Financial assets derecognized during the period | - | (3.078.557) | - | (3.078.557) | - | (15.236.930) | - | (15.236.930) |
| Changes in PDs/LGDs/EADs | (168.128) | (199.193) | (229.189) | (596.510) | - | - | - | - |
| Changes in interest accruals | - | - | - | - | 6.253.385 | 1.174.879 | 1.222.636 | 8 650.900 |
| Write offs | (3.805) | - | (53.398) | (57.203) | (3.805) | - | (53.398) | (57.203) |
| Other movements | - | - | - | - | (22.755.470) | (11.669.992) | (1.432.328) | (35.857.789) |
| Provision for accrued interest not recognized | 148 | 2.106 | 159.171 | 161.425 | - | - | - | - |
| **Closing balances as at 31 December 2019** | 1.308.719 | 109.460 | 8.598.126 | 10.016.305 | 140.625.081 | 22.284.066 | 30.716.405 | 193.625.552 |

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit related commitments*

The primary purpose of these instruments is to ensure that funds are available to a borrower as required. Guarantees which represent irrevocable assurances that the Bank will make payments in the event that a counterparty cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2020 is as follows:

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total € |
|---|---|---|---|---|
| Issued letters of guarantees/letters of credit and acceptances and endorsements | 16.859.233 | 1.982.323 | 1.040.812 | 19.882.368 |
| Provision for issued letters of guarantees/credit | (10.393) | (53) | (1.431) | (11.877) |

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total € |
|---|---|---|---|---|
| Loan commitments - unutilised credit facilities | 94.493.495 | 10.803.480 | 444.432 | 105.741.407 |
| Provision for loan commitments | (113.244) | (46.442) | (12.940) | (172.626) |

**39. RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

*Credit related commitments (continued)*

Movements in the provision for loan commitments were as follows:

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total provision € |
|---|---|---|---|---|
| **Provision for loan commitments at 1 January 2020** | 236.652 | 14.758 | 27.356 | 278.766 |
| Loan commitments (fees charged) | (139.133) | 29.611 | 3.382 | (106.140) |
| Movements between stages | 15.725 | 2.073 | (17.798) | - |
| **Provision for loan commitments at 31 December 2020** | 113.244 | 46.442 | 12.940 | 172.626 |

Movements in the provision for letters of guarantees/credit were as follows:

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total provision € |
|---|---|---|---|---|
| **Provision for letters of guarantees/letters of credit and acceptances and endorsements at 1 January 2020** | 7.364 | - | 535 | 7.899 |
| Issued guarantees (fees charged) | 3.092 | 3 | 883 | 3.978 |
| Other movements | (63) | 50 | 13 | - |
| **Provision for letters of guarantees/letters of credit and acceptances and endorsements at 31 December 2020** | 10.393 | 53 | 1.431 | 11.877 |

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit related commitments (continued)*

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2019 is as follows.

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total € |
|---|---|---|---|---|
| Issued letters of guarantees/letters of credit and acceptances and endorsements | 20.955.881 | 46.952 | 1.033.430 | 22.036.263 |
| Provision for issued letters of guarantees/credit | (7.364) | - | (535) | (7.899) |

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total € |
|---|---|---|---|---|
| Loan commitments – unutilised credit facilities | 95.111.713 | 1.902.132 | 161.496 | 97.175.341 |
| Provision for loan commitments | (236.598) | (14.759) | (27.410) | (278.767) |

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit related commitments (continued)*

Movements in the provision for loan commitments were as follows:

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total provision € |
|---|---|---|---|---|
| **Provision for loan commitments at 1 January 2019** | 260.056 | 20.423 | 43.873 | 324.352 |
| **Loan commitments (fees charged)** | (56.170) | 8.737 | 1.847 | (45.586) |
| **Movements between stages** | 32.766 | (14.402) | (18.364) | - |
| **Provision for loan commitments at 31 December 2019** | 236.652 | 14.758 | 27.356 | 278.766 |

Movements in the provision for letters of guarantees/credit were as follows:

| | Stage 1 (12-months ECL) € | Stage 2 (lifetime ECL for SICR) € | Stage 3 (lifetime ECL for credit impaired) € | Total provision € |
|---|---|---|---|---|
| **Provision for letters of guarantees/letters of credit and acceptances and endorsements at 1 January 2019** | 8.865 | - | - | 8.865 |
| Issued guarantees (fees charged) | 38 | - | (1.004) | (966) |
| Other movements | (1.539) | - | 1.539 | - |
| **Provision for letters of guarantees/letters of credit and acceptances and endorsements at 31 December 2019** | 7.364 | - | 535 | 7.899 |

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

## 39. RISK MANAGEMENT (continued)

### a) Credit risk (continued)

*Credit quality of the Bank's assets exposed to credit risk other than loans and other advances to customers – Analysis by rating agency*

Balances with Central Bank of Cyprus and deposits with banks are analysed by Moody's rating as follows:

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Aaa – Aa3 | **4.578.725** | 11.364.118 |
| A1 – A3 | **25.001.496** | 23.461.743 |
| Baa1 – Baa3 | **4.802.825** | 3.938.645 |
| Ba1 – Ba2 | **126.092.534** | 45.524.609 |
| Caa1 – Caa3 | **77.717.662** | 182.378.617 |
| Unrated | **48.318** | 64.401 |
| | **238.241.560** | 266.732.133 |

Investments in debt securities, comprising of government bonds and treasury bills, are analysed by Moody's rating as follows:

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| Ba2 | **137.320.708** | 146.787.096 |
| Baa3 | **28.682.765** | - |
| | **166.003.473** | 146.787.096 |

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| **Issued by:** | | |
| Cyprus sovereign | **137.320.708** | 146.787.096 |
| Italy sovereign | **28.682.765** | - |
| | **166.003.473** | 146.787.096 |

| | 2020 | 2019 |
|---|---|---|
| | € | € |
| **Classified as:** | | |
| Financial assets at amortised cost | **166.003.473** | 146.787.096 |

## 39. RISK MANAGEMENT (continued)

### b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet current and future payments obligations as and when they fall due. This risk includes the possibility that the Bank may have to raise funding at a higher cost or sell assets at a discount.

Bank assets are mainly funded by deposits. The maturity of the deposits is actively monitored in order to avoid concentration of funding maturities at any point in time. The responsibility for the management of liquidity rests with the treasury department and the operations and support division.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity requirements, in order to also ensure compliance with the limits set by the applicable regulatory limits.

**Analysis of financial assets and financial liabilities by remaining contractual maturity**

The following liquidity tables analyse the financial assets and financial liabilities of the Bank into relevant maturity groupings based on their remaining contractual maturity at 31 December and is based on undiscounted cash flows.

*Financial assets*

The financial assets are presented on the same basis as the one provided to the management of the Bank and to the Central Bank of Cyprus, as this presentation is considered to be the most appropriate presentation of the Bank's liquidity. Accordingly, the analysis of the financial assets does not include any interest receivable cash flows.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Balances with banks are analysed in the time bands according to the number of days remaining from 31 December until their contractual maturity date. Financial assets with no contractual maturity (i.e. equity securities) are included in the "over 5 years" time band. The investments are classified in the relevant time band according to their contractual maturity.

*Financial liabilities*

All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December. Fixed deposits are classified in time bands based on their contractual maturity.

*Contingent liabilities and commitments*

The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Bank after giving relevant notice to the customers. Thus, the unutilised credit facilities are included within the first maturity time band.

## 39. RISK MANAGEMENT (continued)

### b) Liquidity risk (continued)

**Analysis of financial assets and financial liabilities by remaining contractual maturity (continued)**

| | Less than 1 month € | Between 1-3 months € | Between 3 months to 1 year € | Between 1-5 years € | Over 5 years € | Total € |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and balances with Central Bank of Cyprus | 89.072.411 | 17.777.527 | 21.197.816 | 7.925.765 | 1.660.510 | 137.634.029 |
| Deposits with banks | 115.219.242 | - | - | - | - | 115.219.242 |
| Loans and advances to customers | 88.562.349 | 2.598.103 | 8.756.695 | 40.974.476 | 68.407.377 | 209.299.000 |
| Equity investments at fair value through profit or loss | - | - | - | - | 3.131 | 3.131 |
| Equity investments at fair value through other comprehensive income | - | - | - | - | 7.187.150 | 7.187.150 |
| Other financial assets at amortised costs | 14.988.921 | 11.600.788 | 49.887.906 | 24.693.108 | 64.832.750 | 166.003.473 |
| Other financial assets | - | 1.623.690 | 874.411 | - | - | 2.498.101 |
| | 307.842.923 | 33.600.108 | 80.716.828 | 73.593.349 | 142.090.918 | 637.844.126 |
| **Financial liabilities** | | | | | | |
| Deposits from banks | 9.389.986 | - | - | - | 8.494.012 | 17.883.998 |
| Deposits and other customer accounts | 413.172.785 | 60.235.440 | 93.038.815 | - | - | 566.447.040 |
| Other financial liabilities | 2.756.550 | - | 2.651.906 | 1.254.899 | - | 6.663.355 |
| | 425.319.321 | 60.235.440 | 95.690.721 | 1.254.899 | 8.494.012 | 590.994.393 |
| **Off-balance sheet items** | | | | | | |
| Acceptances and endorsements | 191.200 | 83.544 | - | - | - | 274.744 |
| Letters of guarantee | 334.830 | 1.526.682 | 8.074.378 | 4.890.900 | 1.828.951 | 16.655.741 |
| Letters of credit | 139.585 | 1.547.024 | 1.265.274 | - | - | 2.951.883 |
| Amount of unutilised credit facilities | 105.741.407 | - | - | - | - | 105.741.407 |
| | 106.407.022 | 3.157.250 | 9.339.652 | 4.890.900 | 1.828.951 | 125.623.775 |

| | Less than 1 month € | Between 1-3 months € | Between 3 months to 1 year € | Between 1-5 years € | Over 5 years € | Total € |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and balances with Central Bank of Cyprus | 37.295.902 | 7.087.780 | 7.174.170 | 3.184.957 | 545.787 | 55.288.596 |
| Deposits with banks | 224.690.633 | - | - | - | - | 224.690.633 |
| Loans and advances to customers | 117.769.262 | 5.106.273 | 8.827.426 | 41.861.292 | 66.800.710 | 240.364.963 |
| Equity investments at fair value through profit or loss | - | - | - | - | 5.212 | 5.212 |
| Equity investments at fair value through other comprehensive income | - | - | - | - | 6.662.847 | 6.662.847 |
| Other financial assets at amortised costs | 81.725.065 | 4.246.671 | - | 24.667.020 | 36.148.340 | 146.787.096 |
| Other financial assets | - | 3.406.568 | 1.140.276 | - | - | 4.546.844 |
| | 461.480.862 | 19.847.292 | 17.141.872 | 69.713.269 | 110.162.896 | 678.346.191 |

## 39. RISK MANAGEMENT (continued)

### b) Liquidity risk (continued)

**Analysis of financial assets and financial liabilities by remaining contractual maturity (continued)**

| | Less than 1 month € | Between 1-3 months € | Between 3 months to 1 year € | Between 1-5 years € | Over 5 years € | Total € |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Deposits from banks | 10.710.471 | 736.090 | 771.341 | - | 9.554.754 | 21.772.656 |
| Deposits and other customer accounts | 426.284.749 | 69.626.586 | 101.670.993 | - | - | 597.582.328 |
| Other financial liabilities | 1.455.534 | - | 4.739.636 | 1.473.491 | - | 7.668.661 |
| | 438.450.754 | 69.827.044 | 107.181.970 | 1.473.491 | 10.090.386 | 627.023.645 |
| **Off-balance sheet items** | | | | | | |
| Acceptances and endorsements | 556.501 | 574.280 | - | - | - | 1.130.781 |
| Letters of guarantee | 36.477 | 3.509.102 | 8.458.807 | 4.377.128 | 2.150.083 | 18.531.597 |
| Letters of credit | 20.832 | 2.220.286 | 132.445 | - | - | 2.373.563 |
| Amount of unutilised credit facilities | 97.175.340 | - | - | - | - | 97.175.340 |
| | 97.789.150 | 6.303.668 | 8.591.252 | 4.377.128 | 2.150.083 | 119.211.281 |

### c) Market risk

Market risk is the risk of loss from adverse changes in market prices. The Bank is exposed primarily to financial risks emanating from changes in foreign currency exchange rates and interest rates.

*Interest rate risk*
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the interest rate repricing of assets and liabilities. The Bank monitors on a continuous basis the interest rate movements and the repricing or maturity structure of its assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. The difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to find the annual impact on earnings of any changes in interest rates for the next twelve months for each currency.

*Sensitivity analysis*
The table below indicates the effect on the Bank's net profit and equity, if interest rates for the main currencies were 50 basis points higher. A positive number below indicates an increase in profit/equity. For a decrease of 50 basis points there would be an equal and opposite impact on the net profit and equity.

## 39. RISK MANAGEMENT (continued)

### c) Market risk (continued)

*Interest rate risk (continued)*

*Sensitivity analysis (continued)*

| | Euro €'000 | USD Dollars €'000 | British Pound €'000 | Other currencies €'000 | Total €'000 |
|---|---|---|---|---|---|
| **Change in interest rates** | | | | | |
| **2020** | | | | | |
| +50 b.p. in all currencies | **(1.490)** | **-** | **-** | **(2)** | **(1.492)** |
| **2019** | | | | | |
| +50 b.p. in all currencies | (1.735) | - | - | (1) | (1.736) |

*Currency risk*
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. It arises from an open position in a foreign currency, creating an exposure to a change in the relevant exchange rate. This may arise from the holding of financial assets in one currency funded by liabilities in another currency.

In order to manage currency risk, the Bank has approved open position limits for each currency. Adherence to the limits is monitored on a daily basis by the treasury department and the operations and support division.

The table below sets out the Bank's foreign exchange risk resulting from its open foreign exchange positions. A positive number below indicates an increase in profit/equity. For a corresponding decrease there would be an equal and opposite impact on profit/equity.

| | Open position €'000 | Change in exchange rate % | Impact on net profit/ equity €'000 |
|---|---|---|---|
| **Currency** | | | |
| **2020** | | | |
| US Dollar | **(81)** | **+5** | **(4)** |
| British Pound | **(5)** | **+5** | **-** |
| Other currencies | **1.569** | **+5** | **88** |
| **2019** | | | |
| US Dollar | 52 | +5 | (2) |
| British Pound | (7) | +5 | - |
| Other currencies | 1.907 | +5 | (91) |

## 39. RISK MANAGEMENT (continued)

### d) Operational risk

Operational risk is the risk of loss arising from fraud, error, omission, systems failure or other external events. The Bank manages operational risk through the various established policies, limits and written procedures. The Risk Management Unit, in cooperation with all units and divisions, is responsible for managing the Bank's operational risk. Furthermore, this is supported by the reviews undertaken by the Internal Audit division.

### e) Regulatory risk

The operations of the Bank are supervised by the Central Bank of Cyprus. Licensed banking institutions in Cyprus have to comply with the requirements of both the European Union and Cyprus regulatory frameworks. Legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may adversely affect the results and financial position of the Bank.

### f) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

With reference to the above, the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

*Fair value measurements recognised in the statement of financial position*

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques.

- The fair values of equity investments at fair value through other comprehensive income that are traded on an active market are determined with reference to quoted market prices. Unquoted equity securities are valued using valuation techniques that include inputs from non-observable data. The non-observable inputs to the models for the valuation of unquoted equity investments include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.
- The fair values of derivative instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

## 39. RISK MANAGEMENT (continued)

### f) Fair value of financial instruments (continued)

The following table provides the Bank's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | € | € | € | € |
| **2020** | | | | |
| **Financial assets at FVTPL** | | | | |
| Derivative financial assets | - | 75.704 | - | **75.704** |
| Equities | 3.131 | - | - | **3.131** |
| **Financial assets at FVOCI** | | | | |
| Equities | 6.142.662 | - | 1.044.488 | **7.187.150** |
| Total | **6.145.793** | **75.704** | **1.044.488** | **7.265.985** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | € | € | € | € |
| **2019** | | | | |
| **Financial assets at FVTPL** | | | | |
| Derivative financial assets | - | 34.299 | - | 34.299 |
| Equities | 5.212 | - | - | 5.212 |
| **Financial assets at FVOCI** | | | | |
| Equities | 5.618.359 | - | 1.044.488 | 6.662.847 |
| Total | 5.623.571 | 34.299 | 1.044.488 | 6.702.358 |

During 2020 and 2019 there were no transfers between levels.

*Reconciliation of Level 3 fair value measurements*

| | Unlisted equity investments | |
|---|---|---|
| | 2020 | 2019 |
| | € | € |
| Balance of 1 January | **1.044.488** | 972.560 |
| Gains recognised in other comprehensive income | - | 71.928 |
| Balance at 31 December | **1.044.488** | 1.044.488 |

For the valuation at fair value of the investments in equity securities which are classified as Level 3, a valuation method based on the Bank's equity at which the investment is held as well as estimates of the management of the Bank have been used.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

**39. RISK MANAGEMENT (continued)**

**f) Fair value of financial instruments (continued)**

The following table presents the carrying amounts and the fair value of financial instruments not measured at fair value, grouped into Levels 1 to 3.

| | Level 1 | Level 2 | Level 3 | Fair value for disclosure purposes | Carrying amount |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **2020** | | | | | |
| **Financial assets measured at amortised cost** | | | | | |
| Loans and advances to customers | - | - | **209.299.000** | **209.299.000** | **209.299.000** |
| Deposits with banks | - | **115.219.242** | - | **115.219.242** | **115.219.242** |
| Financial assets at amortised cost | **166.003.473** | - | - | **166.003.473** | **166.003.473** |
| **Financial liabilities measured at amortised cost** | | | | | |
| Deposits and other customer accounts | - | **566.447.040** | - | **566.447.040** | **566.447.040** |
| Deposits from banks | - | **17.883.998** | - | **17.883.998** | **17.883.998** |

| | Level 1 | Level 2 | Level 3 | Fair value for disclosure purposes | Carrying amount |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **2019** | | | | | |
| **Financial assets measured at amortised cost** | | | | | |
| Loans and advances to customers | - | - | 240.364.963 | 240.364.963 | 240.364.963 |
| Deposits with banks | - | 223.707.922 | - | 223.707.922 | 223.707.922 |
| Financial assets at amortised cost | 146.787.096 | - | - | 146.787.096 | 146.787.096 |
| **Financial liabilities measured at amortised cost** | | | | | |
| Deposits and other customer accounts | - | 597.582.328 | - | 597.582.328 | 597.582.328 |
| Deposits from banks | - | 21.772.656 | - | 21.772.656 | 21.772.656 |

The cash and balances with central bank are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature.

## 40. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that the Bank complies with regulatory capital requirements and that the Bank maintains adequate capital ratios in order to support its business and to maximise shareholders' value.

As from 1 January 2014, the new Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose 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 that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding.

The Bank has chosen to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) according to which the capital impact of the changes introduced by IFRS 9 at the beginning of 2018, is 'phased in' over a 5-year period. During the 'phased-in' 5-year period the IFRS9 impairment provisions are added back to CET1 capital according to the following weighting factors: 0.95, 0.85, 0.7, 0.5 and 0.25 in 2018, 2019, 2020, 2021 and 2022 respectively.

On 7 June 2019, the EU banking reform package has been published in the Official Journal of the European Union which includes the Directive (EU) 2019/878 (CRD V) and the Regulation (EU) 2019/876 (CRR II), entered into force on 27 June 2019. The Regulation (EU) 2019/876 (CRR II) includes a number of amendments regarding the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirement.

*COVID-19 pandemic implications on capital*

The ECB announced a package of capital relief measures to mitigate the impact of COVID-19 pandemic on the EU banking sector. On 24 June 2020, the EU Council announced that it adopted Regulation (EU) 873/2020 ("CRR Quick Fix") amending Regulations (EU) No 575/2013 and (EU) 876/2019 as regards certain adjustments in response to the COVID-19 pandemic.

The main amendments which affect the Bank's regulatory capital include the acceleration of the implementation of the new SME discount factor under CRR II introduced earlier in June 2020, instead of June 2021, extending the IFRS 9 transitional arrangements for mitigating the impact on own funds from the potential sudden increase in ECL allowance.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 40. CAPITAL MANAGEMENT (continued)

The Bank's capital position under CRD IV/CRR after applying the transitional arrangement for IFRS 9 and on a fully loaded basis is presented below.

| | According to the transitional arrangements 2020 EUR'000 | Fully loaded basis 2020 EUR'000 | According to the transitional arrangements 2019 EUR'000 | Fully loaded basis 2019 EUR'000 |
|---|---|---|---|---|
| Common Equity Tier (CET1) | **96.321** | **61.940** | 104.809 | 70.926 |
| Additional Tier 1 Capital (ATI) | - | - | - | - |
| Tier 2 Capital (T2) | - | - | - | - |
| Regulatory Capital | **96.321** | **61.940** | 104.809 | 70.926 |
| Risk weighted assets – credit risk | **233.704** | **237.522** | 299.772 | 312.292 |
| Risk weighted assets – market risk | **2.343** | **2.343** | 2.400 | 2.400 |
| Risk weighted assets – operational risk | **34.895** | **34.895** | 42.325 | 42.325 |
| Total risk weighted assets | **270.942** | **274.760** | 344.497 | 357.017 |

| | 2020 % | 2020 % | 2019 % | 2019 % |
|---|---|---|---|---|
| Common Equity Tier 1 (CET1) ratio | **35,55%** | **22,54%** | 30,42% | 19,87% |
| Tier 1 ratio | **35,55%** | **22,54%** | 30,42% | 19,87% |
| Total capital ratio | **35,55%** | **22,54%** | 30,42% | 19,87% |

The Bank was compliant with its capital requirements through the years ended 31 December 2019 and 31 December 2020.

**NOTES TO THE FINANCIAL STATEMENTS**
**Year ended 31 December 2020**

## 41. EVENTS AFTER THE REPORTING PERIOD

*New Definition of Default*

The objective of the European Banking Authority (EBA) published Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013 (EBA/GL/2016/07), applicable from 1 January 2021, and Regulation (EU) 2018/1845 of the European Central Bank (ECB) in relation to the threshold for assessing the materiality of credit obligations past due is to harmonise the definition of default across the European Union, thus contributing to improving consistency in the way EU banks apply regulatory requirements to their capital positions.

In particular, they clarify all aspects relating to the application of the definition of default, including conditions for a return to non-defaulted status (introduction of a probation period for non-forborne exposures), explicit criteria for classification of restructured loans as defaulted, and the introduction of specific materiality thresholds (absolute and relative) to count the days past due and to identify a default event.

The Bank, under the standardized approach, will implement these new provisions from 1 January 2021, from which date onwards the calculation of expected credit losses will be adjusted.

*Classification in Stage 3 under new definition of default*

The new definition of default results in classification of loans into Stage 3 according to the following main criteria:

a) Unpaid payments of over 500 euros for more than 90 consecutive days, representing at least 1% of the total exposure of the customer. The assessment takes place at obligor level. Only missed payments related to business litigations, specific contractual features or IT failures (i.e. 'technical past due' situations) may avoid automatic transfer into Stage 3 after 90 days.

b) A 3-month probation period for non-forborne exposures, during which no default trigger applies.

c) Identification of other criteria that evidence, even in the absence of missed payments, that it is unlikely that the counterparty could meet all its financial obligations (UTPs), including indicatively the following:

- the granting of concessions towards debtors facing or about to face difficulties in meeting their financial commitments that result in a decrease in the present value of cash flows of more than 1% of its initial value (a distressed restructuring resulting in a diminished financial obligation);
- the partial or full sale of credit obligations at a material credit-related economic loss, i.e. >5%;
- losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment.

The Bank's preliminary assessments indicate that the changes brought about by the implementation of these new regulatory default provisions will not have a material effect on the financial statements.

**COVID-19 developments**

See Note 38.

Independent auditor's report on pages 6 to 11.