EUROBANK CYPRUS LTD

Report and
Financial Statements

For the year ended 31 December 2019

Eurobank Cyprus Ltd

Report and financial statements for the year ended 31 December 2019

Contents

Eurobank Cyprus Ltd

Board of Directors and Other Officers

Board of Directors

O. Ellingham	Chairman, Non Executive (appointed as Chairman on 13 March 2020)
N. Karamouzis	Vice Chairman, Non Executive
M. Louis	Executive
D. Shacallis	Executive
R. Kyprianou	Non Executive
M. Colakides	Non Executive
L. Demosthenous	Non Executive
A. Soteriou	Non Executive
S. Ioannou	Non Executive
T. Phidia	Non Executive
C. Kitti	Non Executive

Executive Committee

M. Louis
D. Shacallis
C. Hambakis
A. Petsas
A. Malliotis
A. Antoniou
S. Kassianides
D. Eliades
N. Panayi
M. Hadjikyriakos
D. Kolkas

Company Secretary

D. Shacallis

Registered office

41 Arch. Makariou III Avenue
5th floor
CY-1065 Nicosia
Cyprus

Eurobank Cyprus Ltd

Management Report

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the "Bank") for the year ended 31 December 2019.

Principal activity

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

Branches

The Bank did not operate through any branches outside Cyprus during the year.

Review of developments, position and performance of the Bank's business

The main financial highlights for the year are as follows:

	2019	2018
	€'000	€'000
Net interest income	**78.233**	69.691
Operating income	**106.191**	94.460
Operating expenses including impairment losses	**47.204**	39.405
Profit before tax and government levies	**58.987**	55.055
Profit for the year	**44.467**	42.458
Customer deposits	**5.545.712**	4.839.981
Loans and advances to customers	**2.097.428**	2.149.942
Total assets	**6.303.646**	5.841.644
Equity	**494.137**	444.711
	%	%
Cost/income	**34,3**	30,4
Return on equity	**9,5**	9,9
Net loans/deposits	**37,8**	44,4
Cost of risk	**0,5**	0,5
NPE provisions coverage	**65,5**	62,0
Credit-impaired loans/gross loans	**3,4**	4,1
Capital adequacy ratio (all CET 1)	**25,1**	24,5
Leverage ratio	**9,4**	10,0

The Bank's profit for the year reached €44,5 million reporting 5% increase in comparison to 2018.

This result is attributed mainly to healthy net interest income being a result of effective liquidity and deposit cost management.

As a result of the Bank's increased activities, commission income increased by 30% in comparison to 2018, attributed to all commission income streams including transactional activity related, trade finance, wealth management, credit related commissions and commissions from credit and debit cards.

Management Report (continued)

Review of developments, position and performance of the Bank's business (continued)

The increase in operating expenses was mainly due to increased headcount, increased repairs and maintenance in relation to the Bank's information technology systems and other administrative expenses.

As a result of the above, cost/income ratio increased from 30,4% of 2018 to 34,3%. Despite the increase in costs, return on equity has been maintained at above 9%.

The quality of the loan portfolio improved further in 2019 as depicted by the decrease in the credit-impaired loans/gross loans ratio to 3,4% from 4,1% in 2018. In addition, the NPE provisions coverage increased from 62% of 2018 to circa 66%.

Net interest income increased by approximately €8,5 million (or 12%) in comparison to 2018, as a result of increased lending, effective utilisation of excess liquidity, investment in securities, derivatives and reduction in the cost of deposits.

Customer deposits for 2019 amounted to €5,5 billion, increased by €0,7 billion or 14,6% vs 2018.

Loans & advances to customers reported a decrease of €53 million vs 2018 after taking into account the full repayment of a credit facility extended by the Bank to ERB New Europe Funding II B.V., a Group subsidiary which as at 31 December 2018 amounted to €288 million. Excluding this repayment, loans & advances reported an increase of €235 million or 13% vs 2018. The Bank continues to implement a selective credit expansion policy as demonstrated by the low ratio on credit-impaired loans.

The financial position, development and performance of the Bank as presented in these financial statements are considered satisfactory.

Business outlook and risks

The Bank considers risk management to be a major control function and a major factor contributing to the stability of the Bank's performance.

Operating environment of Cyprus

During the period to December 2019, GDP grew by 3,2% year on year, down from 3,9% in 2018 but significantly higher than the EU average of 1,2%. The growth is driven by the sectors of tourism and professional services, retail and wholesale trade, as well as manufacturing and construction. Tourist arrivals recorded their 6th consecutive year of growth in 2019, reaching an annual figure of 3.977 million which is 1% higher than in 2018. Inflation remained in positive territory at 0,7% for a third consecutive year, while unemployment decreased to 7,6% on average in the period to December 2019 compared to 8,4% in 2018.

Management Report (continued)

Business outlook and risks (continued)

Government budget for 2019 recorded an increase of 9% in total revenue to €8.306,9 million compared to an increase of 8,2% in total expenditure of €7.691 million. Combined with the contribution of other Government bodies, the budget recorded an overall surplus of €603 million or 2,75% of GDP, while the primary budget recorded a surplus of €1.142 million or 5,2% of GDP. Government Debt/GDP decreased to 95,2% in 2019 compared to 100,60% in 2018 and is expected to decrease further by year end due to upcoming debt repayments. In January 2020 the Government proceeded with two benchmark issues totaling €1.750 million in ten and twenty year bonds.

On the 20 September 2019, Moody's placed the rating outlook of Cyprus to positive which could lead to an upgrade in the long-term issuer rating from the current level of Ba2. S&P and Fitch continue to maintain Cyprus at the first step of the investment grade scale with a stable outlook.

The reduction in non-performing exposures ('NPEs') continued in 2019 as NPE's dropped to €9.420 million in November 2019 compared to €10.260 million at the end of 2018. During the same period provisions reached €5.132 million or 54,5% of NPE's.

The recent developments relevant to the outbreak of the Coronavirus disease ('COVID-19') are expected to impact adversely the economic growth in the short term. The most notable effects are expected in the areas of tourism, retail, trade, commercial real estate and consumption.

The Government is estimating a contraction of GDP between 5% and 9,7% during 2020, and unemployment is estimated to rise to 9% in 2020 compared to 7,1% in 2019. The fiscal measures taken by the Government are expected to cushion the economy without compromising the fiscal discipline and public finances to a significant extent.

Following the issuance of €1,75 billion in seven and thirty year bonds and the issuance for up to €1,25 billion in 52 week T-Bills in the domestic market, total debt is expected to exceed 110% of GDP. A significant part of the total issuance has been performed for contingency purposes and can be employed for debt repayment once market conditions normalise. Consequently we expect the Debt/GDP ratio to resume its declining trend in 2021. Furthermore, the policies adopted by the ECB and the CBC are expected to address the challenges that could impact the real economy.

As decribed in note 32 of the financial statements, in order to ensure uninterrupted operations of the Bank and customers service as well as to limit exposure and spreading of the COVID-19, the Bank's Management invoked the business continuity plan of the Bank, established a Crisis Management Committee and took immediate actions.

Management Report (continued)

Business outlook and risks (continued)

Even though it is still early to assess how the COVID-19 pandemic will affect the economy and for how long, by reference to the results of a number of stress test scenarios performed by the Bank as part of COVID-19 preliminary impact assessment, the Bank is expected to remain profitable with ample liquidity and compliant with its capital adequacy and other regulatory / prudential requirements.

Based on the Bank's strong financial position, the Bank will continue to support its customers, protect its human capital and support the effort of the Government and the society in limiting the impact of this virus.

Going concern assessment

Taking into consideration the above factors as well as the Bank's capital and liquidity position, the Board of Directors is satisfied that the financial statements of the Bank are prepared on a going concern basis.

Financial risk management

The Bank is exposed to risks, the most significant of which are credit risk, liquidity risk, and market risk. The Bank monitors, manages and mitigates these risks through various control mechanisms. Detailed information relating to the Bank's risk management is set out in note 4 of the financial statements.

Future developments of the Bank

The Bank currently operates through a network of 8 Banking Centres in Nicosia, Limassol, Larnaca, Paphos and Famagusta. The Bank will continue to strengthen its operations investing in human capital, information technology and processes and procedures in various areas.

Results

The Bank's results for the year are set out on pages 12 and 13.

Net profit for the year ended 31 December 2019 is retained.

Share capital

There were no changes in the Bank's share capital during the year ended 31 December 2019.

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2019 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2019 and up to the date of this report. On 13 March 2020 Mr. Oliver Ellingham was appointed as Chairman of the Board of Directors to replace Mr. Robert Kyprianou.

Management Report (continued)

Board of Directors (continued)

There were no significant changes in the distribution of responsibilities or compensation of the Board of Directors.

Bank Management

The Bank's Executive Committee as at 31 December 2019 and at the date of this report is shown on page 1.

Events after the balance sheet date

Events after the balance sheet date are described in note 32 of the financial statements.

Auditors

The Independent Auditors, KPMG Limited, have expressed their willingness to continue in office.

By Order of the Board of Directors

Michalis Louis
Chief Executive Officer

Nicosia, 24 April 2020

KPMG Limited
Chartered Accountants
14 Esperidon Street, 1087 Nicosia, Cyprus
P.O. Box 21121, 1502 Nicosia, Cyprus
T: +357 22 209000, F: +357 22 678200

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

EUROBANK CYPRUS LTD

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of the parent company Eurobank Cyprus Ltd (the "Bank"), which are presented on pages 12 to 159 and comprise the balance sheet as at 31 December 2019, the income statement, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *"Auditors' responsibilities for the audit of the financial statements"* section of our report. 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 in Cyprus that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limassol
P.O. Box 50161, 3601
T +357 25 869000
F +357 25 363842

Larnaca
P.O. Box 40075, 6300
T +357 24 200000
F +357 24 200200

Paphos
P.O. Box 60288, 8101
T +357 26 943050
F +357 26 943062

Paralimni / Ayia Napa
P.O. Box 33200, 5311
T +357 23 820080
F +357 23 820084

Polis Chrysochous
P.O. Box 66014, 8330
T +357 26 322098
F +357 26 322722

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Impairment of loans and advances to customers	
Refer to notes 3.1, 4.2.1.3 and 17 to the financial statements.	
Key audit matter	**How the matter was addressed in our audit**
At 31 December 2019 the Bank reported total gross loans of €2.136.224 thousand and €47.527 thousand of expected credit losses. Key judgments and estimates in respect of the timing and measurement of expected credit losses ("ECL") include: ▪ Allocation of loans and advances to customers to stages 1, 2, or 3 using criteria in accordance with the relevant accounting standard; ▪ Accounting interpretations, modelling assumptions and estimations used to build the models that calculate ECL, including the determination of Probabilities of Default ('PD') which is considered the most significant judgemental aspect of the Bank's ECL modelling approach; and ▪ Inputs and assumptions used to estimate the impact of multiple economic scenarios, along with the weighted- probabilities used; ▪ Measurements of individually assessed exposures.	Our audit procedures in this area included, among others: 1. Selecting a sample of loans and advances to customers in stages 1 and 2 to assess the reasonableness of credit rating assigned and therefore determine the appropriateness of stage allocation within all three stages (stages 1, 2, and 3). 2. For stage 1 and stage 2 assets, with the support of our internal credit modelling specialists, we have: ▪ Inspected and assessed the model documentation and methodology for compliance with IFRS 9 and market practice. ▪ Tested the key assumptions, inputs and mathematical theory used in ECL model. This included assessing the mathematical theory of the model used, through testing that the methodology applied was appropriate including where relevant the mathematical integrity and statistical robustness of the model. ▪ Performed risk based substantive testing of models, including independently re-building certain assumptions and compared the calculated amount with the recognised amount. ▪ Performed reconciliations between the databases used to calculate ECL and the accounting data including the testing of the flow and transformation of data between source systems to the impairment calculation engine. ▪ For the critical data used in the year end ECL calculation, accuracy was tested by reconciling/tracing to source systems/documents. 3. For stage 3 assets, we performed credit assessment on a sample of loans and advances to customers, assessing the appropriateness of impairment loss allowance. This included an assessment of the main assumptions used to assess the expected recovery flows, in particular with regard to valuing collateral. 4. For a sample of valuations used in ECL calculation, with the support of our internal valuation specialists, we assessed the reasonableness and appropriateness of methodology used to determine the fair value of the property collaterals.

Other information

The Board of Directors is responsible for the other information. The other information comprises the management report, but does not include the financial statements and our auditors' 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, except as required by the Companies Law, Cap.113.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

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

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

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of 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 there is an intention to either liquidate the Bank or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

Auditors' responsibilities for the audit of the financial statements (continued)

- 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 auditors' 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 auditors' 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, related safeguards.

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. We describe these matters in our auditors' report.

Report on other regulatory and legal requirements

Other regulatory requirements

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

Date of appointment and period of engagement

We were appointed auditors on 6 July 2018 by the Annual General Meeting of the Bank's members to audit the financial statements of the Bank for the year ended 31 December 2018. Our total uninterrupted period of engagement, having been renewed annually by shareholders' resolution is 2 years covering the periods ending 31 December 2018 to 31 December 2019.

Consistency of auditors' report to 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 presented to the Audit Committee of the Bank, which is dated 22 April 2020.

Other regulatory requirements (continued)
Provision of Non-audit Services ("NAS")

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

Other legal requirements

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

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Bank's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L.53(I)/2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Constantinos N. Kallis.

Constantinos N. Kallis, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

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

24 April 2020

Eurobank Cyprus Ltd

Income Statement
for the year ended 31 December 2019

	Note	**2019 €'000**	2018 €'000
Interest income calculated using the effective interest method	5	**111.519**	103.548
Other interest income	5	**10.490**	9.760
Interest expense calculated using the effective interest method	5	**(43.091)**	(42.953)
Other interest expense	5	**(685)**	(664)
Net interest income		**78.233**	69.691
Banking fee and commission income	6	**32.284**	27.244
Banking fee and commission expense	6	**(6.212)**	(6.867)
Net banking fee and commission income		**26.072**	20.377
Net trading income	7	**106**	122
Net gains from other financial instruments	8	**1.778**	1.966
Other income	9	**2**	2.304
Net other operating income		**1.886**	4.392
Operating income		**106.191**	94.460
Staff costs	10	**(20.794)**	(16.688)
Other operating expenses	11	**(15.579)**	(12.061)
Profit from operations before impairments and provisions		**69.818**	65.711
Impairment losses on loans and advances	4.2.1.3	**(11.100)**	(10.316)
Other reversal/impairment losses and provisions	12	**269**	(340)
Profit before tax and government levies		**58.987**	55.055
Government levy on customer deposits	24	**(6.375)**	(5.343)
Income tax expense	13	**(8.145)**	(7.254)
Profit for the year		**44.467**	42.458

The notes on pages 17 to 159 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income for the year ended 31 December 2019

	2019 €'000		2018 €'000	
Profit for the year		**44.467**		42.458
Other comprehensive income:				
Items that are or may be subsequently reclassified to income statement:				
Debt securities at FVOCI (note 18)				
- net changes in fair value, net of tax	**6.603**		(5.273)	
- reclassified to income statement, net of tax	**(1.644)**	**4.959**	(2.390)	(7.663)
Other comprehensive income/(loss) for the year, net of tax		**4.959**		(7.663)
Total comprehensive income for the year		**49.426**		34.795

The notes on pages 17 to 159 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet
at 31 December 2019

	Note	2019 €'000	2018 €'000
Assets			
Cash and balances with central banks	14	**886.876**	767.279
Due from credit institutions	15	**2.407.637**	2.153.994
Derivative financial instruments	16	**598**	3.904
Loans and advances to customers	17	**2.097.428**	2.149.942
Investment securities	18	**885.355**	754.864
Investments in subsidiaries	19	**9**	4
Property, plant and equipment	20	**16.971**	6.987
Intangible assets	21	**7.973**	3.500
Other assets	22	**799**	1.170
Total assets		**6.303.646**	5.841.644
Liabilities			
Due to credit institutions	23	**182.774**	508.354
Derivative financial instruments	16	**16.063**	900
Due to customers	24	**5.545.712**	4.839.981
Other liabilities	25	**64.960**	47.698
Total liabilities		**5.809.509**	5.396.933
Equity			
Share capital	26	**12.010**	12.010
Share premium	26	**245.384**	245.384
Other reserves	18	**14.957**	9.998
Retained earnings		**221.786**	177.319
Total equity		**494.137**	444.711
Total equity and liabilities		**6.303.646**	5.841.644

On 24 April 2020 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Oliver Ellingham, Chairman of the Board of Directors

Michalis Louis, Chief Executive Officer

Demetris Shacallis, Chief Financial Officer

The notes on pages 17 to 159 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity for the year ended 31 December 2019

	Share capital €'000	Share premium €'000	Fair value reserve €'000	Retained earnings €'000	**Total equity €'000**
Balance at 1 January 2018	**12.010**	**245.384**	**17.661**	**134.861**	**409.916**
Profit for the year	-	-	-	42.458	**42.458**
Other comprehensive income for the year	-	-	(7.663)	-	**(7.663)**
Total comprehensive income for the year	**-**	**-**	**(7.663)**	**42.458**	**34.795**
Balance at 31 December 2018	**12.010**	**245.384**	**9.998**	**177.319**	**444.711**
Balance at 1 January 2019	**12.010**	**245.384**	**9.998**	**177.319**	**444.711**
Profit for the year	-	-	-	44.467	**44.467**
Other comprehensive income for the year	-	-	4.959	-	**4.959**
Total comprehensive income for the year	**-**	**-**	**4.959**	**44.467**	**49.426**
Balance at 31 December 2019	**12.010**	**245.384**	**14.957**	**221.786**	**494.137**

The notes on pages 17 to 159 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement
for the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
Cash flows from operating activities			
Profit before tax and government levies		**58.987**	55.055
Adjustments for:			
Amortisation of intangible assets	21	**1.445**	1.019
Depreciation of property, plant and equipment	20	**2.921**	1.424
Loss on disposal of property, plant and equipment	20	**-**	6
Impairment allowance on loans and advances to customers	4.2.1.3	**10.318**	10.171
Impairment / (reversal of impairment) allowance on investment securities	18	**7**	(203)
Impairment allowance on balances with central banks	14	**-**	8
(Reversal of impairment) / impairment allowance on due from credit institutions	15	**(50)**	94
Impairment allowance for expected credit losses on credit related commitments and contingent liabilities	4.2.1.3	**612**	394
Interest income on investment securities	5	**(23.197)**	(20.023)
Foreign exchange differences on investing activities	18	**(5.301)**	(11.082)
Foreign exchange differences on impairment allowance on loans and advances to customers	4.2.1.3	**(42)**	21
Foreign exchange differences on right-of-use assets		**(2)**	-
Profit on disposal of investments in subsidiaries	19	**-**	(2.176)
Net gains on disposal of investment securities at FVOCI	8	**(1.360)**	(2.009)
Net (gains)/losses on revaluation of investment securities at FVTPL	8	**(204)**	43
		44.134	32.742
Changes in operating assets and liabilities			
Net increase in cash and balances with central banks		**(7.729)**	(3.675)
Net decrease in due from credit institutions		**(25)**	(274)
Net decrease/(increase) in derivative financial instruments		**18.469**	(7.622)
Net decrease/(increase) in loans and advances to customers		**42.238**	(264.047)
Disposals, write-offs and adjustments to right-of-use assets		**(409)**	-
Net decrease in other assets		**221**	746
Net decrease in due to credit institutions		**(325.580)**	(52.109)
Net increase in due to customers		**705.731**	574.554
Net increase/(decrease) in other liabilities		**10.164**	(1.128)
		443.080	246.445
Government levy on customer deposits paid		**(6.375)**	(5.343)
Income tax paid		**(8.096)**	(6.647)
Net cash flows from operating activities (1)		**472.743**	267.197
Cash flows from investing activities			
Investments in subsidiaries	19	**(5)**	(2)
Proceeds from sale of investments in subsidiaries	19	**-**	2.178
Purchases of intangible assets	21	**(5.918)**	(850)
Purchases of property, plant and equipment	20	**(4.758)**	(1.597)
Proceeds from sale of property, plant and equipment	20	**6**	-
Proceeds from disposals, maturities and redemptions of investment securities		**191.053**	139.382
Payments for acquisition of investment securities	18	**(309.168)**	(352.586)
Interest received on investment securities		**22.638**	19.990
Net cash flows used in investing activities		**(106.152)**	(193.485)
Cash flows from financing activities			
Payment of lease liabilities		**(1.155)**	-
Net cash flows used in financing activities		**(1.155)**	-
Net increase in cash and cash equivalents		**365.436**	73.712
Cash and cash equivalents at beginning of year	30	**2.871.275**	2.797.563
Cash and cash equivalents at end of year	30	**3.236.711**	2.871.275

Note:
(1) Includes interest received of €112.260 thousand (2018: €104.033 thousand) and interest paid of €45.593 thousand (2018: €43.683 thousand).

The notes on pages 17 to 159 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

Eurobank Cyprus Ltd ("the Bank") is a company domiciled and incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its registered office and business address is at 41 Arch. Makariou III Avenue, 5th floor, 1065 Nicosia, Cyprus.

Principal activity

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

2 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 years presented in these financial statements except for the adoption of new and amended standards and interpretations as explained in notes 2.1.1, 2.2 and 2.3 below. In addition, where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union (EU), and in particular with those Standards and Interpretations, issued and effective for annual periods beginning on 1 January 2019. The financial statements of the Bank have also been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113.

The financial statements have been prepared under the historical cost convention, except for financial assets measured at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) measured at fair value through profit or loss and, recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships measured at amortised cost adjusted for hedging gain or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

These separate financial statements contain information about Eurobank Cyprus Ltd as an individual company and do not contain consolidated financial information as the parent of a group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The Bank is not required by the Cyprus Companies Law, Cap. 113, to prepare consolidated financial statements because the ultimate parent company, Eurobank Ergasias S.A., publishes consolidated financial statements in accordance with Generally Accepted Accounting Principles in Greece and the Bank does not intend to issue consolidated financial statements for the year ended 31 December 2019.

The European Commission has concluded that since parent companies are required by the EU Accounting (2013/34/EU) Directive to prepare separate financial statements and since the Cyprus Companies Law, Cap. 113, requires the preparation of such financial statements in accordance with IFRS as adopted by the EU, the provisions in IFRS 10 'Consolidated Financial Statements' requiring the preparation of consolidated financial statements in accordance with IFRS do not apply. The consolidated financial statements of Eurobank Ergasias S.A.'s are available at its website (www.eurobank.gr).

The Bank's presentation currency is the Euro (€) being its functional currency. Except as indicated, financial information presented in Euro has been rounded to the nearest thousand.

Going concern:

The annual financial statements have been prepared on a going concern basis, as the Board of Directors considered as appropriate, taking into consideration the following:

a) Macroeconomic environment and solvency risk of the Group

The Group operates in an environment of positive growth rates both in Greece (Group's main market) and the other countries, in which it has a substantial presence. Specifically, Greece's 2019 real GDP growth was at 1,9% according to the Hellenic Statistical Authority (ELSTAT) data (2018: 1,9%), while it was estimated at 2,4% in 2020, according to the European Commission's 2020 winter forecasts. The unemployment rate in December 2019 was at 16,3% (December 2018: 18,5%) based on ELSTAT data. On the fiscal front, according to the 2020 Budget, the primary surplus of Greece for 2019 is estimated at 3,7% of GDP, while the respective forecast for 2020 was estimated at 3,6% of GDP. However, the recent coronavirus outbreak is very possible to slash the above forecasts for 2020.

Regarding the outlook for the next 12 months, the major macroeconomic risks and uncertainties in Greece are associated with (i) the implementation of the reforms and privatisations' agenda in order to meet the ES targets and milestones, (ii) the implementation of the Public Investments Program according to the respective 2020 Budget targets etc.

A major challenge for the international community is the recent coronavirus outbreak whose economic effect is mainly related with the disruption of trade and global supply chains and the risks that it might create for the world growth for 2020. In case of a global slowdown in economic activity, an adverse impact on certain industries of the Greek economy, such as tourism, manufacturing sector and shipping cannot be ruled out. Materialisation of those risks would have potentially adverse effects on the fiscal planning of the Greek sovereign and on the liquidity, solvency and profitability of the Greek banking sector, as well as on the realisation of their NPE's reduction plans.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

a) *Macroeconomic environment and solvency risk of the Group (continued)*

The merger with Grivalia completed in May 2019 has further enhanced Eurobank Ergasias S.A.'s capital with the total CAD and the CET1 ratios amounting to 19,2% and 16,7% respectively as at 31 December 2019.

In 2019, the Group, after completing in September the sale of 95% of the mezzanine and junior notes of a securitisation of a residential mortgage loan portfolio with a gross book value of ca. €2 billion (project Pillar comprising primarily NPEs) and executing its organic NPE reduction strategy, managed to decrease its NPEs at amortised cost by €3,7 billion to €13 billion, driving the NPE ratio to 29% (2018: 37%).

The Greek government in order to support the reduction of non-performing loans (NPL) of banks designed an asset protection scheme ('APS'), approved by European Commission in October 2019, to assist them in securitising and moving non-performing loans off their balance sheets. In December 2019 Eurobank Ergasias S.A., following the enactment of the 'APS' law and its decision to opt-in for all the senior notes of the Cairo transaction, has entered into binding agreements for: a) the sale of 20% of the mezzanine and the minimum required percentage (as per 'APS') of junior notes of a securitisation of a mixed assets portfolio with a gross book value of ca. €7,5 billion (project Cairo comprising primarily NPEs) and b) the sale of a majority stake in Financial Planning Services S.A. (FPS), the licensed 100%-owned loan servicer of Eurobank (project Europe). The above projects are a key component of the Group's frontloaded NPE reduction plan for the achievement of the targeted NPE ratio of ca. 16% in 2020 and a single digit ratio by 2021.

b) *The Cyprus economy*

During the period to December 2019, GDP grew by 3,2% year on year, down from 3,9% in 2018 but significantly higher than the EU average of 1,2%. The growth is driven by the sectors of tourism and professional services, retail and wholesale trade, as well as manufacturing and construction. Tourist arrivals recorded their 6th consecutive year of growth in 2019, reaching an annual figure of 3.977 million which is 1% higher than in 2018. Inflation remained in positive territory at 0,7% for a third consecutive year, while unemployment decreased to 7,6% on average in the period to December 2019 compared to 8,4% in 2018.

Government budget for 2019 recorded an increase of 9% in total revenue to €8.306,9 million compared to an increase of 8,2% in total expenditure of €7.691 million. Combined with the contribution of other Government bodies, the budget recorded an overall surplus of €603 million or 2,75% of GDP, while the primary budget recorded a surplus of €1.142 million or 5,2% of GDP. Government Debt/GDP decreased to 95,2% in 2019 compared to 100,60% in 2018 and is expected to decrease further by year end due to upcoming debt repayments. In January 2020 the Government proceeded with two benchmark issues totaling €1.750 million in ten and twenty year bonds.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

b) The Cyprus economy (continued)

On the 20 September 2019, Moody's placed the rating outlook of Cyprus to positive which could lead to an upgrade in the long-term issuer rating from the current level of Ba2. S&P and Fitch continue to maintain Cyprus at the first step of the investment grade scale with a stable outlook.

The reduction in non-performing exposures ('NPEs') continued in 2019 as NPE's dropped to €9.420 million in November 2019 compared to €10.260 million at the end of 2018. During the same period provisions reached €5.132 million or 54,5% of NPE's. The reduction in NPE's is expected to continue throughout 2020 as financial institutions continue to plan out further loan portfolio sales. Other factors that are expected to contribute to the reduction in NPE's include the launching of the ESTIA scheme, the successful completion of the probation period of restructured loans, write-offs, repayments and settlement of debt through swaps with immovable property.

The recent developments relevant to the outbreak of COVID-19 virus are expected to impact adversely the economic growth in the short term. The most notable effects are expected in the areas of tourism, retail, trade, commercial real estate and consumption. The Government is estimating a contraction of GDP between 5% and 9,7% during 2020, and unemployment is estimated to rise to 9% in 2020 compared to 7,1% in 2019. The fiscal measures taken by the Government are expected to cushion the economy without compromising the fiscal discipline and public finances to a significant extent.

Following the issuance of €1,75 billion in seven and thirty year bonds and the issuance for up to €1,25 billion in 52 week T-Bills in the domestic market, total debt is expected to exceed 110% of GDP. A significant part of the total issuance has been performed for contingency purposes and can be employed for debt repayment once market conditions normalise. Consequently we expect the Debt/GDP ratio to resume its declining trend in 2021. Furthermore, the policies adopted by the ECB and the CBC are expected to address the challenges that could impact the real economy.

Even though it is still early to assess how the COVID-19 pandemic will affect the economy and for how long, by reference to the results of a number of stress test scenarios performed by the Bank as part of COVID-19 preliminary impact assessment, the Bank is expected to remain profitable with ample liquidity and compliant with its capital adequacy and other regulatory / prudential requirements. Additional disclosure on COVID-19 is shown in Note 32 of these financial statements.

Based on the Bank's strong financial position, the Bank will continue to support its customers, protect its human capital and support the effort of the Government and the society in limiting the impact of this virus.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

<u>Going concern (continued):</u>

c) Going concern assessment

Taking into consideration the above factors as well as the Bank's financial, capital and liquidity position as described in the Management Report, the Board of Directors has been satisfied that the financial statements of the Bank can be prepared on a going concern basis.

2.1.1 New and amended standards and interpretations

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on 1 January 2019. The nature and effect of the changes as a result of the adoption of these are described in note 2.3. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

A number of other new standards are also effective from 1 January 2019 but they do not have an effect on the Bank's financial statements.

(a) Amendments to standards adopted by the Bank

IFRS 9, Amendments–Prepayment Features with Negative Compensation
The amendments in IFRS 9 requirements allow the measurement of a financial asset at amortised cost, or at fair value through other comprehensive income (FVOCI), depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination, receiving compensation from the other party (negative compensation). Therefore, these financial assets can now be measured at amortised cost or at FVOCI, regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendments would probably result in these financial assets failing the "Solely Payments of Principal and Interest" criterion and thus being measured at FVTPL.

The amendments also confirm the modification accounting of financial liabilities under IFRS 9. Specifically, when a financial liability measured at amortised cost is modified without this to result in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised in profit or loss.

The adoption of the amendments had no impact on the financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments
The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates as determined by applying IFRIC 23.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

IFRIC 23, Uncertainty over Income Tax Treatments (continued)
According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The entity also assumes that the taxation authority that will examine these uncertain tax amounts, has a right to examine and has full knowledge of all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, it will determine its taxable profits, tax bases, tax losses, tax credits and tax rates consistently with that treatment. If it concludes that it is not probable that the uncertain tax treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (i.e. the single most likely amount, or the expected value method which follows a probability weighted approach).

Judgments and estimates that are made for the recognition and measurement of the effect of the uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (e.g. actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).

The adoption of the interpretation had no impact on the financial statements.

IFRS 16, Leases
IFRS 16 which supersedes IAS 17 “Leases” and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17.

The definition of a lease under IFRS 16 mainly relates to the concept of control. The new standard distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has: the right to obtain substantially all of the economic benefits from the use of an identified asset; and the right to direct the use of that asset.

IFRS 16 provides for the recognition of a ‘right-of-use-asset’ and a ‘lease liability’ upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to control the use of an identified asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

IFRS 16, Leases (continued)
Consequently, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short-term leases and leases of low value assets. The accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

Adoption of IFRS 16
The Bank implemented the requirements of IFRS 16 on 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 and therefore the comparative information was not restated. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Upon transition, the Bank adopted the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, existing contracts previously classified as service contracts were not classified as leases under IFRS 16, while the definition set out in IFRS 16 is applied to all lease contracts entered into or modified on or after 1 January 2019.

In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee recognises right-of-use assets and lease liabilities on the balance sheet, initially measured at the present value of the future lease payments.

The Bank applied this initial measurement principle to all leases, except for those with a lease term of 12 months or less, and leases of low value (i.e. less than € 5,000) - making use of the relevant short-term leases and leases of low-value assets exemptions. The Bank also adopted the practical expedient not to separate non-lease components from lease components.

The Bank also used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:
- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

IFRS 16, Leases (continued)
In applying the modified retrospective transition approach, the Bank used the following main estimates and judgments:

- In determining the lease term for the leases in which the Bank is the lessee, all relevant facts and circumstances, such as future housing needs and expected use, were considered and judgment was exercised. Furthermore, options to extend or terminate the lease that are reasonably certain to exercise were considered. These estimates will be revisited on a regular basis over the lease term.
- The present value of the lease liabilities was measured by using the incremental borrowing rate on the transition date, since the interest rate implicit in the leases was not readily determinable. The Bank determines its incremental borrowing rate by analysing its borowings from various external sources and makes certain adjustments, where needed, to reflect the terms of the lease and type of asset leased.
- Applicable taxes, Value Added Tax and stamp duties were excluded from the scope of IFRS 16 calculations.

The quantitative impact of applying IFRS 16 as at 1 January 2019 is disclosed in note 2.3.

IAS 28, Amendments – Long-Term Interests in Associates and Joint Ventures
The amendments clarify that IFRS 9 “Financial Instruments” including its impairment requirements, applies to long-term interests in associates or joint ventures that form part of the entity’s net investment in the associate or joint venture but are not accounted for using equity method of accounting.

According to the amendments, an entity should not take into account any adjustments to the carrying amount of long-term interests (net investment in the associate or joint venture), resulting from the application of IAS 28 ‘Investments in Associates and Joint Ventures’ when applying IFRS 9.

The adoption of the amendments had no impact on the financial statements.

IAS 19, Amendments –Plan Amendment, Curtailment or Settlement
The amendments clarify that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after that event. Additionally, the amendments include clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The adoption of the amendments had no impact on the financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

Annual Improvements to IFRSs 2015-2017 Cycle
The improvements introduce key changes to several standards as set out below:

The amendments to IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements” clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. Specifically, when an entity obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party re-measures the entire previously held interest in the assets and liabilities of the joint operation at fair value. In case when a party that participates in, but does not have joint control of, a joint operation obtains joint control of the joint operation, then the previously held interest is not re-measured.

The improvement to IAS 12 “Income Taxes” clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognised in profit or loss, other comprehensive income or equity, according to where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognised.

IAS 23 ’Borrowing costs’ amendments clarified that any borrowing originally performed to develop a qualifying asset should be treated as part of the funds that the entity borrowed generally, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The adoption of the amendments had no impact on the financial statements.

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective after 2019, as they have not yet been endorsed by the European Union, or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2020)
In September 2019, the IASB issued amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” to address the implications for certain hedge accounting requirements related to the uncertainties arising from the market-wide reform of several interest rate benchmarks (referred to as “IBOR reform”). As a result of the IBOR reform, there may be uncertainties about: a) the interest rate benchmark designated as a hedged risk and/or b) the timing or amount of the benchmark-based cash flows of the hedged item or the hedging instrument, during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an “RFR”). The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 to provide temporary reliefs from the potential effect of uncertainty, during the transition period.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2020) (continued)
These reliefs are related mainly to the highly probable requirement for the cash flows hedges, the compliance with the identifiable nature of the risk component and the application of prospective and retrospective effectiveness tests.

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. These amendments conclude phase one that focuses on hedge accounting issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase focuses on potential issues that might affect financial reporting once the existing rates are replaced with an RFR.

As described in note 2.2.2, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. Therefore, the amendments to IAS 39 and IFRS 7 will be applicable for the Bank.

The Bank has set up an IBOR transition program to implement the transition to alternative interest rates that focuses on key areas of impact on customers' contracts, systems and processes, financial reporting, valuation, capital and liquidity planning and communication (refer to note 4.2.5).

The Bank is currently assessing the amendments in order to define the extent to which the reliefs provided will be applied in its hedging relationships.

Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards (effective 1 January 2020)
In March 2018, the IASB issued its revised "Conceptual Framework for Financial Reporting" (Conceptual Framework). The revised Conceptual Framework is not a standard nor overrides any requirements of individual standards. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced guidance on measurement, presentation and disclosure on derecognition concepts. In addition, the revision includes updated definitions of an asset/liability and of recognition criteria, as well as clarifications on important areas.

Alongside the revised Conceptual Framework, the IASB has published an accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards" which contains consequential amendments to affected standards so that they refer to the revised Framework.

The adoption of the amended Framework is not expected to impact the financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Amendments to IFRS 3 Business Combinations (effective 1 January 2020, not yet endorsed by EU)
The IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements and add guidance to help entities assess whether an acquired process is substantive. In addition, with the introduction of the amendments the definitions of a business and of outputs are narrowed, while an optional fair value concentration test is introduced.

The adoption of the amendments is not expected to impact the financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)
The amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" aim to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

The adoption of the amendments is not expected to impact the financial statements.

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2022, not yet endorsed by EU)
The amendments affect only the presentation of liabilities in the balance sheet and provide clarifications over the definition of the right to defer the settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, an entity can ignore only those conversion options that are recognised as equity.

The adoption of the amendments is not expected to impact the financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 17, Insurance Contracts (effective 1 January 2023, not yet endorsed by EU)
IFRS 17, which supersedes IFRS 4 "Insurance Contracts" provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features provided that the entity also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted estimates of future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured at each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced, or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e. amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Bank's activities.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies

2.2.1 Foreign currency translation

(i) 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 thousands, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognised in the income statement, except when deferred in equity as qualifying cash flow or net investment hedges.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognised in the icnome statement or recorded directly in equity depending on the classification of the non-monetary item.

2.2.2 Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, forward currency agreements and interest rate options (both written and purchased), currency and interest rate swaps and other derivative financial instruments, are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in notes 2.2.15 and 4.5.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Embedded derivatives

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.2.12. In addition, certain derivatives, embedded in financial liabilities, are treated as separate derivatives when the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The use of derivative financial instruments is inherent in the Bank's activities and aims principally at managing risk effectively.

Accordingly, the Bank, as part of its risk management strategy, may enter into transactions with external counterparties to hedge partially or fully interest rate, foreign currency, equity and other exposures that are generated from its activities.

The objectives of hedging with derivative financial instruments include:

- Reduce interest rate exposure that is in excess of the Bank's interest rate limits,
- Manage efficiently interest rate risk and fair value exposure,
- Manage future variable cash flows,
- Reduce foreign currency risk or inflation risk.

Hedge accounting

The Bank has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39, until the project of accounting of macro hedging activities is completed by the IASB. For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument and a related item or group of items to be hedged. A hedging instrument is a designated derivative or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

Specifically, the Bank designates certain derivatives as hedges of the exposure to changes in the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge).

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Hedge accounting (continued)

In order to apply hedge accounting specific criteria should be met. Accordingly, at the inception of the hedge accounting relationship, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank also documents its assessment, both at inception of the hedge and on an ongoing basis, an assessment of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80-125%. If a relationship does not meet the abovementioned hedge effectiveness criteria, the Bank discontinues hedge accounting prospectively. Similarly, if the hedging derivative expires or is sold, terminated or exercised, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.

The method of recognising the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.

Furthermore, the Bank may designate groups of items as hedged items, by aggregating recognised assets or liabilities or unrecognised but highly probable transactions of similar risk characteristics that share the exposure for which they are hedged. Although the overall risk exposures may be different for the individual items in the group, the specific risk being hedged will be inherent in each of the items in the group.

(i) Fair value hedge

The Bank applies fair value hedging to hedge exposures primarily to changes in the fair value attributable to interest rate risk and currency risk.

The items that qualify for fair value hedge accounting include fixed rate debt securities classified as FVOCI and amortised cost financial assets, fixed rate term deposits or term loans measured at amortised cost, as well as fixed rate debt securities in issue.

The interest rate and currency risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps.

The Bank uses the dollar-offset method in order to assess the effectiveness of fair value hedges. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

(i) Fair value hedge (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

The Bank discontinues hedge accounting prospectively in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortised to income statement over the period to maturity. On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to the income statement by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in the income statement when the item is derecognised. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves.

(ii) Derivatives not designated as hedging instruments for hedge accounting purposes

Changes in the fair value of derivative financial instruments that are not designated as hedging instruments or do not qualify for hedge accounting, are recognised in the income statement under “Net trading income”.

The fair values of derivative instruments held for trading and used for hedging purposes are disclosed in note 16.

2.2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when, and only when, the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.4 Interest income and expense

Interest income and expense is recognised in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate ('EIR') method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit impaired financial assets ('POCI'), the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. For POCI financial assets, the Bank calculates the credit-adjusted EIR, which is the interest rate that upon the original recognition of the POCI financial asset discounts the estimated future cash flows (including expected credit losses) to the fair value of the POCI asset.

The amortised cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortisation using the EIR (as described above) and for financial assets, adjusted for the ECL allowance, while the gross carrying amount of a financial asset is its amortised cost before adjusting for ECL allowance.

The EIR calculation includes all fees and basis points paid or received that are an integral part of the effective interest rate, incremental transaction costs, and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset and liability.

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) and to the amortised cost of financial liabilities respectively.

For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortised cost of the financial asset (i.e. gross carrying amount adjusted for the ECL allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

For financial assets that were credit-impaired on initial recognition interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI asset's amortised cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation.

For inflation-linked instruments the Bank recognises interest income and expense by adjusting the EIR on each reporting period due to changes in expected future cash flows, incorporating changes in inflation expectations over the term of the instruments. The adjusted EIR is applied in order to calculate the new gross carrying amount on each reporting period. The EIR is also revised for fair value hedge adjustment at the date amortisation of the hedge adjustment begins.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.4 Interest income and expense (continued)

Presentation

Interest income calculated using the effective interest method presented in the income statement includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the income statement includes:

- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- interest expense on lease liabilities.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in the income statement as other interest income and other interest expense.

2.2.5 Fees and commissions

Fee and commission received or paid that are integral to the EIR on a financial asset or financial liability are included in the EIR.

Other fee and commission income is recognised as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognised will not occur. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances and bank charges are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

In the case of a contract with a customer that results in the recognition of a financial instrument in the Bank's financial statements which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and subsequently applies IFRS 15 to the residual part.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.6 Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continued to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 14 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicit or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
    - the Bank has the right to operate the asset; or
    - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contract entered into, or changed on or after 1 January 2019.

Policy applicable before 1 January 2019

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases under which the leased asset is not recognised on balance sheet. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Policy applicable from 1 January 2019

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.6 Leases (continued)

<u>Policy applicable from 1 January 2019 (continued)</u>

As a lessee (continued)

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank’s incremental borrowing rate. Generally, the Bank uses the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank’s estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment” and lease liabilities in “other liabilities”.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.6 Leases (continued)

Policy applicable from 1 January 2019 (continued)

Short-term leases and leases of low-value assets

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

Policy applicable before 1 January 2019

Assets held under operating leases were not recognised in the Bank's balance sheet. Payments made under operating leases were recognised in the profit or loss on a straight-line basis over the term of the lease.

2.2.7 Income tax

Income tax expense comprises current and deferred tax. It is recognised in income statement except to the extent that it relates to items recognised directly in equity or OCI.

(i) Current income tax

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertaintly related to income taxes, if any.

It is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is provided in full, 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 tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet. The principal temporary differences arise from depreciation of property, plant and equipment and amortisation of computer software.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.7 Income tax (continued)

(ii) Deferred tax (continued)

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available. The Bank recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax related to investment securities at FVOCI is recognised in other comprehensive income, and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2.2.8 Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as “staff costs” in the income statement. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is recognised in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment, to their residual values, over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. The estimated useful economic lives are as follows:

	Useful economic life
Motor vehicles and motor cycles	5 years
Equipment	5 to 12 years
Leasehold improvements	12 years

Depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 (note 2.2.11).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in "other operating expenses" in the income statement.

2.2.10 Intangible assets

Computer software

Acquired computer software licenses/programs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and measured at cost less accumulated amortisation and any accumulated impairment losses. These costs are amortised using the straight line method to allocate the cost of computer software, over their estimated useful lives. The annual amortisation rates used range between 8% and 33,33%.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.10 Intangible assets (continued)

Gains and losses on disposal of computer software are determined by comparing proceeds with carrying amount and are included in “other operating expenses” in the income statement.

Subsequent expenditure on software assets is captalised only when it increased the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.2.11 Impairment of non-financial assets

Non-financial assets, including property, plant and equipment, and intangible assets, are assessed for indications of impairment at each reporting date. When events or changes in circumstances indicate that the carrying amount may not be recoverable an impairment loss is recognised in 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, where applicable. Non-financial assets, other than goodwill, for which an impairment loss was recognised in prior reporting periods, are reviewed for possible reversal of such impairment at each reporting date.

2.2.12 Financial assets

Financial assets - Classification and measurement

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

Loans and advances originated by the Bank are recognised when cash is advanced to the borrowers. Purchases and sales of all other financial assets are recognised on trade date, which is the date the Bank commits to purchase or sell the assets.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial Assets measured at Amortised Cost (‘AC’)

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

Financial assets that meet these criteria are debt instruments and are measured initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortised cost, using the EIR method (as described in 2.2.4 above).

Interest income, realised gains and losses on de-recognition, and changes in expected credit losses from assets classified at AC, are included in the income statement.

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

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met and is not designated as a FVTPL:
(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model); and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs.

Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and expected credit losses, which are recognised in the income statement. Cumulative gains and losses previously recognised in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

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

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

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

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI and financial assets held for trading. Derivative financial instruments are measured at FVTPL, unless they are designated and effective hedging instruments, in which case hedge accounting requirements under IAS 39 continue to apply.

Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at FVTPL are initially recorded at fair value and any unrealised gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

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

The business model is determined by the Bank's Executive Committee consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable.

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

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Types of business models

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.

The hold-to-collect ('HTC') business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model. Debt instruments classified within this business model include bonds, due from credit institutions and loans and advances to customers which are measured at amortised cost, subject to meeting the SPPI assessment criteria.

The hold-to-collect-and-sell business model ('HTC&S') has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and NPE strategy.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Cash flow characteristics assessment

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

In case of special lending arrangements such as non-recourse loans, in its assessment of the SPPI criterion, the Bank considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets. Moreover, for special purpose entities, the Bank takes into consideration the borrower's adequacy of loss absorbing capital by assessing jointly the criteria of equity sufficiency, Loan to Value ratio (LTV), the Average Debt Service Coverage ratio (ADSCR) as well as the existence of corporate and personal guarantees.

In certain cases, when the time value of money element is modified in that the financial asset's interest rate is periodically reset but the reset frequency does not match the tenor of the interest rate or when a financial asset's interest rate is periodically reset to an average of particular short-term and long-term interest rates, a quantitative assessment is performed (the "Benchmark Test") in order to determine whether the contractual cash flows are SPPI.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Cash flow characteristics assessment (continued)

In particular, the Bank assesses the contractual cash flows of the “real instrument”, whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the “benchmark instrument”, which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion. In its assessment, the Bank considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument.

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis on the contractual cash flows of the financial asset, it does not affect its classification. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument’s contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. In such a case, it does not affect the instrument’s classification.

The Bank performs the SPPI assessment for its lending exposures on a product/type of contract basis for the portfolio where contracts are of standardised form, whereas for the remaining portfolio and debt securities, the assessment is performed on an individual basis.

Derecognition of financial assets

The Bank derecognises a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognised even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. Control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party. On derecognition of a financial asset the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in OCI for FVOCI, is recognised in the income statement.

The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention.

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the original financial asset is then derecognised. The Bank records the modified asset as a ‘new’ financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Derecognition of financial assets (continued)

Modifications that may result in derecognition include:
- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

Other modifications that do not affect significantly the risk profile of a financial asset and accordingly may not result in derecognition include:

- changes in interest rate that are not considered significant or grace periods;
- changes in collaterals that are not substantial;
- other changes in contractual terms, e.g. increase in maturity, capitalisation of accruals, etc.

In cases where the modification of the contractual cash flows is not considered substantial (following the de-recognition assessment performed using the de-recognition triggers provided above), the modification does not result in derecognition. The Bank recalculates the gross carrying amount of the financial asset and recognises the difference as a modification gain or loss, which is reflected in the income statement. When a modification includes debt forgiveness, the portion of the asset subject to forgiveness is derecognised first and then the calculation of the modification gain/loss is performed.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in the income statement on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Derecognition of financial assets (continued)

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank has established a structured framework for both the SPPI and derecognition assessment of its financial assets that takes place to ensure appropriate classification and measurement.

2.2.13 Reclassification of financial assets

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's competent Committees and the amendment is reflected appropriately in the Bank's budget and business plan.

Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions), the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the Bank with different business models, are not considered by the Bank changes in business model.

The reclassification is applied prospectively from the reclassification date, therefore previously recognised gains, losses (including impairment losses) or interest are not restated.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.14 Financial liabilities

Classification and measurement

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities measured at fair value through profit or loss.

Financial liabilities at fair value through profit or loss comprise of two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

Financial liabilities held for trading are those liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.

The Bank may, at initial recognition, irrevocably designate financial liabilities at FVTPL when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial liabilities designated at FVTPL are initially recognised at fair value. Changes in fair value are recognised in the income statement, except for changes in fair value attributable to changes in the Bank’s own credit risk, which are recognised in OCI and are not subsequently reclassified to the income statement upon derecognition of the liabilities. However, if such treatment creates or enlarges an accounting mismatch in the income statement, all gains or losses of this financial liability, including the effects of changes in the credit risk, are recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.14 Financial liabilities (continued)

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognised in the income statement.

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.2.15 Fair value measurement of financial instruments

Fair value of financial instruments 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 under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.15 Fair value measurement of financial instruments (continued)

On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortised on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 4.5).

2.2.16 Impairment of financial assets

Impairment of financial assets

The Bank recognises allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments. No ECL are recognised on equity investments.

ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognised, arising from default events that are possible over the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of POCI, the loss allowance is based on the change in the ECL over the life of the asset.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. For all other financial assets subject to impairment, the general three-stage approach applies.

Accordingly, ECLs are recognised using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – When there is no significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-months ECL is recorded. The 12–month ECL represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognised following a substantial modification accounted for as a de-recognition, are classified initially in Stage 1.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. Lifetime ECL represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.
- POCI - POCI assets are financial assets that are credit-impaired on initial recognition. They are not subject to stage allocation and are always measured on the basis of lifetime expected credit losses. Accordingly, ECL are only recognised to the extent that there is a subsequent change in the assets' lifetime expected credit losses. Any subsequent favourable change to their expected cash flows is recognised as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a de-recognition (see section 2.2.12).

Definition of default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definition for non-performing exposure. The accounting definition of default is consistent with the one used for internal credit risk management purposes.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations (e.g. assessed as unlikely to pay).
- There has been a breach of contract, such as a default or past due event (i.e. material exposures that are in arrears for more than 90 days).
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organisation.
- For POCI assets, a purchase or origination at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle-based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

For debt securities, the Bank determines the risk of default using an internal credit rating scale. The Bank considers debt securities as credit-impaired if the internal rating of the issuer/counterparty corresponds to a rating equivalent to "C" (Moody's rating scale) or the external rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale) and the internal rating is not available.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and staging allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a SICR of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition.

At each reporting date, the Bank performs an assessment as to whether the risk of a default occurring over the remaining expected lifetime of the exposure has increased significantly from the expected risk of a default estimated at origination for that point in time.

The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort including forward looking information and macroeconomic scenarios as well as historical experience. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

As a primary criterion for SICR assessment, the Bank compares the residual lifetime probability of default (PD) at each reporting date to the residual lifetime PD for the same point in time which was expected at the origination.

The Bank may also consider as a SICR indicator when the residual lifetime PD at each reporting date exceeds certain predetermined values. The criterion may be applied in order to capture cases where the relative PD comparison does not result to the identification of SICR although the absolute value of PD is at levels which are considered high based on the Bank's risk appetite framework.

For a financial asset's risk, a threshold may be applied, normally reflected through the asset's forecasted PD, below which it is considered that no significant increase in credit risk compared to the asset's expected PD at origination date has taken place. In such a case the asset is classified at Stage 1 irrespectively of whether other criteria would trigger its classification at Stage 2. This criterion primarily applies to debt securities.

Internal credit risk rating (on a borrower basis) is also used as a basis for the identification of SICR with regards to lending exposures of the loan portfolio. Specifically, the Bank takes into consideration the changes of internal ratings by a certain number of notches. In addition, a watchlist status is also considered by the Bank as a trigger for SICR identification.

Assessment of SICR for debt securities is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date.

Forbearance measures as monitored by the Bank are considered as a SICR indicator and thus the exposures are allocated into Stage 2 upon forbearance unless they are considered credit-impaired in which case they are reclassified as Stage 3. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and staging allocation (continued)

Furthermore, Management may apply temporary collective adjustments when determining whether credit risk has increased significantly since initial recognition on exposures that share the same credit risk characteristics to reflect macro-economic or other factors which are not adequately addressed by the current credit risk models. These factors may depend on information such as the type of the exposure, counterparty's specific information and the characteristics of the financial instrument while their application requires the application of significant judgment.

Transfers from Stage 2 to Stage 1

A financial asset, which is classified to Stage 2 due to SICR, is reclassified to Stage 1, as long as it does not meet anymore any of the Stage 2 Criteria.

Where forbearance measures have been applied, the Bank uses a probation period of two years, in order to fulfill the requirements for a transfer back to Stage 1. If at the end of that period the borrowers have made regular payments of a significant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit-impaired, nor any other SICR criteria are met, they exit forborne status and are classified as Stage 1.

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterised as credit-impaired, are no longer valid.

Criteria for grouping of exposures based on shared credit risk characteristics

The assessment of loss allowance is performed either on an individual basis or on a collective basis for groups of similar items with homogeneous credit risk characteristics. The Bank applies the same principles for assessing SICR since initial recognition when estimating ECLs on a collective or on an individual basis.

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default.

The shared credit risk characteristics used for the segmentation of exposures include several elements such as: instrument type, portfolio type, asset class, product type, industry, originating entity, credit risk rating, remaining term to maturity, geographical location of the borrower, value of collateral to the financial asset, forbearance status and days in arrears.

Exposures allocated in Stage 3 are individually assessed and ECL measurement is performed on borrower specific information. This measurement is performed at a borrower level, hence the criteria are defined at this level, while both qualitative and quantitative factors are taken into consideration including forward looking information.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Criteria for grouping of exposures based on shared credit risk characteristics (continued)

For exposures allocated in Stage 1 and Stage 2, ECL are measured on a collective basis. This incorporates borrower specific information, collective historical experience of losses and forward-looking information. For debt securities, the measurement of impairment losses is performed on an individual debt security basis.

Measurement of Expected Credit Losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original EIR of the same instrument, or the credit-adjusted EIR in case of POCI. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered. For loan commitments (i.e. undrawn commitments) ECLs are calculated as the present value of the difference between the contractual cash flows due if the commitment is drawn and the expected cash flows to be received while for financial guarantees ECLs are measured as the expected payments to reimburse the holder less any amounts that the Bank expects to receive.

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

ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument, or in case of revolving credit facilities, by taking into consideration factors such as the Bank’s expected credit risk management actions to mitigate credit risk and past practice.

Receivables from customers arising from the Bank’s activities other than lending, are presented under Other Assets and are typically short term. Therefore, considering that usually there is no significant financing component, the loss allowance for such financial assets is measured at an amount equal to the lifetime expected credit losses under the simplified approach.

ECL Key Inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF). Generally, the Bank derives these parameters from internally developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

ECL Key Inputs (continued)

The PD, LGD and EAD used for accounting purposes may differ from those used for regulatory purposes. For the purposes of IFRS 9 impairment measurement, PD is a point-in-time estimate whereas for regulatory purposes PD is a 'through-the-cycle' estimate. In addition, LGD and EAD for regulatory purposes are based on loss severity experienced during economic downturn conditions, while for impairment purposes, LGD and EAD reflect an unbiased and probability-weighted amount.

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon.

The Bank uses Point in Time ('PiT') PDs in order to remove any bias towards historical data thus aiming to reflect management's view of the future as at the reporting date, incorporating relevant forward looking information including macroeconomic scenarios.

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.
- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECLs for Stage 2, Stage 3 and POCI exposures.

For debt securities, PDs are obtained by an international rating agency using risk methodologies that maximise the use of objective non-judgmental variables and market data. The Bank assigns internal credit ratings to each issuer/counterparty based on these PDs. In case of counterparties for which no information is available, the Bank assigns PDs which are derived from internal models.

The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The EAD includes both on and off balance sheet exposures. The on balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on balance sheet exposure.

Furthermore, the CCF factor is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

ECL Key Inputs (continued)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The Bank distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. The Bank estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realisation, realisation costs, etc.

Where the LGD's component values are dependent on macro–economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

For debt securities, the LGD is typically based on historical data derived mainly from rating agencies' studies but may also be determined considering the existing and expected liabilities structure of the obligor and macroeconomic environment.

Furthermore, the seniority of the debt security, any potential collaterals by the obligor or any other type of coverage is taken into account for the calculation.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about reasonable and supportable forecasts of future events and macroeconomic conditions. The estimation and application of forward-looking information requires significant judgment.

The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome. The base scenario represents the most likely scenario and is aligned with the information used by the Bank for strategic planning and budgeting purposes.

The scenarios are reflected in the risk parameters, and, namely 12-month PD, Lifetime PD and LGD, hence 3 sets of each of these parameters are used, in line with the scenarios developed.

The Bank then proceeds to the calculation of weights for each scenario, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in ECL measurement. ECL calculation incorporates forward-looking macroeconomic variables, including GDP growth rates, real estate price indices, unemployment rates, inflation rates, etc.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Modified financial assets

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the modification date is considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. Such a modified asset is typically classified as Stage 1 for ECL measurement purposes. However, in some circumstances following a modification that results in de-recognition of the original financial asset, there may be evidence that the new financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognised as an originated credit-impaired financial asset (POCI).

In cases where the contractual cash flows of a financial asset have been modified and the modification is not considered substantial enough, the Bank recalculates the gross carrying amount of the financial asset and recognises the difference as a modification gain or loss in the income statement and determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the risk of a default occurring at initial recognition based on the original unmodified contractual terms and the risk of a default occurring at the reporting date, based on the modified contractual terms.

Presentation of allowance for expected credit losses

For financial assets measured at amortised cost, impairment allowance is recognised as a loss allowance reducing the gross carrying amount of the financial assets in the balance sheet. For debt instruments measured at FVOCI, impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial items arising from lending activities, impairment allowance is presented in "Other Liabilities", while the respective ECL is recognised within impairment losses.

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a financial asset either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The timing of the write-off is mainly dependent on whether there are any underlying collaterals, their foreclosure processes, as well as the Bank's estimates of the collectible amounts. The amount that is written-off is considered as derecognised. Unpaid debt continues to be subject to enforcement activity even after it is written-off, except for cases where it is clearly stipulated in debt forgiveness programs. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.17 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

Securities sold subject to repurchase agreements (“repos”) continue to be recorded in the Bank’s balance sheet as the Bank retains substantially all risks and rewards of ownership, while the counterparty liability is included in amounts due to other banks or due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price in case of repos and the purchase and resale price in case of reverse repos is treated as interest and accrued over the period of the repo or reverse repo agreements using the effective interest method.

(ii) Securities lending

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.2.18 Fiduciary activities

The Bank provides custody, trustee and agency services to third parties. This involves the Bank making allocation, purchases and sales in relation to a wide range of financial instruments. The Bank receives fee income for providing these services. Those assets that are held in a fiduciary capacity are not assets of the Bank and are not recognised in the financial statements. In addition, the Bank does not guarantee these investments and as a result it is not exposed to any credit risk in relation to them.

2.2.19 Related party transactions

Related parties of the Bank include:

a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members;
b) members of key management personnel of the Bank, their close family members and entities controlled or jointly controlled by the abovementioned persons;
c) associates and joint ventures of the Bank and the Group; and
d) fellow subsidiaries.

Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and are conducted on an arm's length basis.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.20 Other payables

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

2.2.21 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.2.22 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.

Dividend distribution on shares is recognised as a deduction in the Bank’s equity when approved by the General Meeting of shareholders. Interim dividends are recognised as a deduction in the Bank’s equity when approved by the Board of Directors.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.23 Financial guarantees and commitments to extend credit

Financial guarantees

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

Financial guarantees are initially recognised at fair value. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the impairment loss allowance, and the amount initially recognised less any cumulative amortisation of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9.

Impairment allowance for off-balance sheet exposures (financial guarantees and loan commitments) is included within “Other Liabilities”.

2.2.24 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include notes and coins on hand, balances with central banks, all interbank placements and reverse sale agreements with other banks with original maturities of less than three months. 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 amortised cost.

2.2.25 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 in 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.

2 Summary of significant accounting policies (continued)

2.3 Impact of significant changes in applying accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

2.3.1 IFRS 16 'Leases' – Impact of adoption

The Bank applied IFRS 16 with a date of initial application of 1 January 2019 as further described in note 2.1.1. The impact of the transitioning to the new standard is disclosed below.

2.3.1.1 Impact on financial statements

On 1 January 2019, the Bank recognised right-of-use assets of €7.742 thousand and lease liabilities of €7.620 thousand, with no impact on shareholders' equity. The capital impact arising primarily from the increase in the risk-weighted assets was a reduction of approximately 10 bps on the Bank's common equity Tier I ratio.

For the impact of IFRS 16 on the income statement for the year see note 27.

When measuring these liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 0,8%.

	1 January 2019 **€'000**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	**11.459**
Leases not yet commenced to which the Bank is committed	**(9.559)**
Re-estimation of extension and termination options reasonably certain to be Exercised	**6.248**
Recognition exemption for short term leases and leases of low value	**(293)**
Discounted using the incremental borrowing rate at 1 January 2019	**(235)**
Total lease liabilities recognised at 1 January 2019 under IFRS 16	**7.620**

3 Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Bank's management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities and revenues and expenses recognised in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively. The most significant areas in which the Bank makes judgments, estimates and assumptions in applying its accounting policies are set out below:

3.1 Impairment losses on loans and advances to customers

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognised.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase in credit risk

IFRS 9 does not include a definition of what constitutes a significant incease in credit risk (SICR). An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to Stage 2.

For the Bank's portfolios, the origination PD curves and the residual lifetime PD curves at each reporting date are mapped to credit rating bands. Accordingly, SICR thresholds are based on the comparison of the origination and reporting date credit ratings, whereby rating downgrades represent changes in residual lifetime PD. The Bank segments the portfolios based on asset class and credit rating.

As of 31 December 2019 and 2018, the credit rating deterioration thresholds as per applicable borrower internal rating scale, that trigger allocation to Stage 2 per rating bands for the Bank's portfolio are set out in the tables below:

Internal rating bands	SICR threshold range
1-4	Two notches or more
5-6	One notch or more

3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances to customers (continued)

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome. Each of the scenarios is based on management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. As of 31 December 2019 and 31 December 2018, the probability weights for the above mentioned scenarios applied by the Bank in the ECL measurement calculations are 50% for the baseline scenario and 25% for the adverse and optimistic scenarios.

In terms of macroeconomic assumptions, the Bank assesses a number of indicators in projecting the risk parameters, namely Gross Domestic Product (GDP) growth rates. and consumption. Regarding the key macroeconomic indicators used in the ECL measurement of portfolios for the year ended 31 December 2019 and 31 December 2018, the arithmetic averages of the scenarios' probability-weighted annual forecasts for the next four year period following the reporting date, are set in the following table:

	31 December 2019 Average (2020-2023) annual forecast	31 December 2018 Average (2019-2022) annual forecast
Gross Domestic Product growth	**3,08%**	2,73%
Consumption	**3,08%**	2,73%

Development of ECL models, choice of assumptions, inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterisation based on observed monthly historic data over a defined observation period. The ECL calculations are based on input risk parameters (i.e. EADs, PDs, LGDs). incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as GDP and inflation, and the effect on PDs. For EADs the carrying amount of the facility is used as at reference date; for off balance sheet exposures appropriate CCFs are applied. For LGDs (Stage 1 and Stage 2), an estimation is made by applying average haircuts of 26,33% and recovery periods of 5 years.

Furthermore, the PDs are unbiased rather than conservative and incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate GDP and consumption, which are used as independent variables. The models are based on linear regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment are reflected accordingly.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances to customers (continued)

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics. Re-segmentation reflects management's perception in respect to the change of credit risk associated with the particular exposures compared to initial recognition. For the shipping portfolio, in respect of which the Bank has limited historical data, the PDs were derived using Group's information to supplement the internally available data.

Modelling and Management adjustments

A number of sophisticated models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available, which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. The models are governed by the Bank's IFRS 9 framework.

Sensitivity analysis on lending portfolios

The Bank has performed sensitivity analysis relating to its loan portfolio. The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome. The impact of the change in the weights of the economic scenarios and the collateral realisation periods on the ECL calculations, as at 31 December 2019 and 2018 is shown below:

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost classified in 12 month ECL (Stage 1) and lifetime ECL not credit-impaired (Stage 2)	
	2019	2018
	€'000	€'000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	**20**	-
Decrease the adverse weight by 5% and increase the favourable weight by 5%	**(20)**	(17)
Increase the expected recovery period by 1 year	**242**	173
Decrease the expected recovery period by 1 year	**(216)**	(173)
Increase the collateral realisation haircut by 5%	**597**	370
Decrease the collateral realisation haircut by 5%	**(700)**	(462)
Increase in the PDs of stages 1&2 by 20%	**720**	522
Decrease in the PDs of stages 1&2 by 20%	**(720)**	(540)

3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances to customers (continued)

Sensitivity analysis on lending portfolios (continued)

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost classified in lifetime ECL credit-impaired (Stage 3)	
	2019	2018
	€'000	€'000
Increase the expected recovery period by 1 year	**997**	892
Decrease the expected recovery period by 1 year	**(824)**	(1.005)
Increase the collateral realisation haircut by 5%	**3.625**	3.353
Decrease the collateral realisation haircut by 5%	**(3.427)**	(3.376)

The Bank updates and reviews the reasonability of the main assumptions used in its methodology assessment for SICR and ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL. Furthermore, as part of the well-defined governance framework, any revisions to the methodology used are approved by the Bank competent committees and ultimately the BRC.

4 Financial risk management and fair value

4.1 Use of financial instruments

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers, at both fixed and floating rates, and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates.

4.2 Financial risk factors

The Bank's activities expose it to a variety of financial risks, such as credit risk, market risk (including currency risk, interest rate risk and equity price risk), liquidity risk and operational risk. The Bank's overall risk management strategy seeks to minimise any potential adverse effects on its financial performance, financial position and cash flows.

Risk Management objectives and policies

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank's management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact on the achievement of these objectives.

Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set in a manner that enable the Bank to identify and deal with the risks associated with those changes. The Bank's structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.

The Bank's Management considers effective risk management as a top priority, as well as a major competitive advantage, for the organisation. As such, the Bank has allocated significant resources for upgrading its policies, methods and infrastructure, in order to ensure compliance with the requirements of the European Central Bank (ECB), the guidelines of the European Banking Authority (EBA) and the Basel Committee for Banking Supervision and the best international banking practices. The Bank implements a wellstructured credit approval process, independent credit reviews and effective risk management policies for credit, market, liquidity and operational risk. The risk management policies implemented by the Bank are reviewed annually.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

Risk Management objectives and policies (continued)

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via a set of quantitative and qualitative statements for specific risk types, including specific tolerance levels as described in the Bank's Risk Appetite Framework. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

Risk appetite that is clearly communicated throughout the Bank, determines risk culture and forms the basis on which risk policies and risk limits are established.

The Bank aims to adopt best practices regarding corporate governance, taking into account all relevant guidelines and regulatory requirements. The Bank has developed a well-established risk governance structure, based on clear ownership and accountability principles, efficient segregation of duties, prevention of conflicts of interest and strong independent oversight at all levels.

Board Risk Committee

The Board of Directors has delegated to the Board Risk Committee (BRC) the duties and responsibilities to approve all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). As such BRC plays a key role in the oversight of the risk management function of the Bank. The BRC, through its effective oversight, guides the Bank into strengthening further the risk control environment and assists fundamentally the Board of Directors into taking proper and sound strategic decisions.

Risk Management Unit

The purpose of the Risk Management Unit ("RMU") is to establish and implement an appropriate system for the measurement and management of all significant risks inherent in the activities of the Bank. Among others, the functions of the RMU include the following:

- The utilisation of suitable methods employed for the identification and management of risks;
- The fine-tuning of limits based on specific parameters, by type of risk, counter-party, business sector, country, currency, facility, security, derivative, etc.;
- The setting-up of an early warning system for individual and connected portfolios;
- The carrying out of stress tests for all types of risks, on annual basis;
- Submission of various reports, at least on a quarterly basis to the Board of Directors and the executive management;
- Implementation of provisioning policy;
- Set up of risk policies & procedures.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

Risk Management Unit (continued)

The RMU is headed by the Risk Executive who is appointed by the Board of Directors and is organised along the following departments:

- Credit Risk: (i) reviews all credit proposals and prepares risk assessments (ii) maintains records of all approved borrowers limits & credit exposures.
- Market, Liquidity & Counterparty Risk: (i) monitors market risks to which the Bank is exposed to, (ii) monitors and reports counterparty exposures (iii) develops models and systems for the measurement of market risks (iv) monitors the liquidity of the Bank.
- Operational Risk: assists the business units in (i) identifying, assessing, capturing, reporting, monitoring, preventing and mitigating all Operational Risk events of their ownership (ii) implementing an effective operational risk management program, providing reliable information on the most significant risks, measuring and monitoring the operational risk exposure undertaken by the Bank thus adding value through increased efficiency in risk management, efficient capital allocation, acknowledgement and accountability of risks.
- Credit Control: monitors and evaluates on an ongoing basis the quality of the credit portfolio, allocates provision charges per specific borrower or portfolios of borrowers and verifies adherence to the Bank's Credit Policy Manual. Furthermore, it is responsible for the regulatory and management reporting for all credit related matters.

4.2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from Bank's activities and from the offered products and services. Taking into account that credit risk is the primary risk the Bank is exposed to, it is very closely managed and monitored according to the Bank's risk management framework.

Country risk is the risk of losses arising from economic difficulties or political unrest in a country, including the risk of losses following nationalisation, expropriation and debt restructuring.

Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives and currency transactions. The risk arises when the Bank remits payments before it can ascertain that the counterparties' payments have been received.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Credit concentration risk is defined as the current or prospective risk to earnings and capital arising from excessive exposure placed with one counterparty or group of related counterparties whose likelihood of default is driven by common underlying factors e.g. geographical location, economic sector and industry.

The Bank's lending policy is monitored on an ongoing basis depending on the overall lending strategy (affected by opportunities and threats detected in the local and international business environment), the introduction of new products and services or other criteria as decided by the Bank's Management. Internal procedures and policies are revised accordingly so as to reflect the needs created by the new environment.

Credit approval process

The credit approval process is centralised through establishment of Credit Committees with escalating Credit Approval Levels. Credit Committees are authorised to approve new financing, renewals or amendments in the existing credit limits, in accordance with their approval authority level, depending on total limit amount and customer risk category as well as the value and type of collateral and the monitoring of the loan during its lifecycle.

Credit risk monitoring

The Risk Management Unit monitors and assesses on an ongoing basis the quality of the Bank's loan portfolio and operates independently from the business units of the Bank.

The Bank has in place a system for monitoring the delinquency of credit facilities and setting-up of adequate provisions for loan impairment in accordance to IFRS and local regulations. The monitoring system includes:

- monitoring of the borrower's financial condition, business evolution and overall creditworthiness;
- monitoring the compliance of the borrowers to the set financial and other covenants; and
- monitoring delinquencies (past dues).

Rating systems

The Bank applies various credit rating systems for the assessment and measurement of credit risk. These systems assign a specific rating to every borrower/counterparty which reflects the creditworthiness of the particular borrower and consequently the ability to repay funds on a timely manner. Credit rating takes under consideration various quantitative and qualitative factors. The Bank periodically reviews rating systems and adapts them to particular market conditions, products or borrowers.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Rating systems (continued)

The Bank employs the following rating models for its portfolio:

- Moody's Risk Analyst model (MRA) is used to assess the risk of borrowers for Corporate and Commercial Lending.
- Internal Credit Rating model (ICR) is used for those customers that cannot be rated by MRA.
- Slotting rating models for specialised exposures.

The rating systems consist an integral part of the banking decision-making and risk management processes:

- The credit approval or rejection, both at the origination and review process;
- The allocation of competence levels for credit approval;
- Risk-adjusted pricing;
- Internal capital allocation; and
- The impairment calculation (staging criteria and subsequent ECL estimation of forecasted risk parameters).

Credit risk mitigation

A key component of the Bank's business strategy is to reduce risk by utilising various risk mitigating techniques. The most important risk mitigating means are collaterals' pledges, guarantees and netting agreements. The types of collaterals commonly accepted by the Bank are:

- Residential real estate, commercial real estate, industrial buildings and land;
- Receivables (trade debtors);
- Securities, including listed shares and bonds;
- Deposits;
- Guarantees and letters of support;
- Insurance policies;
- Equipment, mainly vessels.

A specific coverage ratio is pre-requisite, upon the credit relationship's approval and on ongoing basis, for each collateral type.

For exposures, other than loans to customers (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's fair value, i.e. the exit price that would be received to sell the asset in an orderly transaction under current market conditions;
- the fair value reflects market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

The Bank performs collaterals' valuation in accordance with its processes and policies. For real estate collaterals, the Bank employs external qualified appraisers based on predefined criteria (qualifications and expertise) and also utilises appropriate indices such as the index published by the Central Bank of Cyprus. All appraisals take into account factors such as the region, age and marketability of the property.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasises the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

Counterparty risk

The Bank mitigates counterparty risk arising from treasury activities by entering into master netting arrangements and similar agreements, as well as collateral agreements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offset of balance sheet assets and liabilities, as the transactions are usually settled on a gross basis. However, the respective credit risk is reduced through a master netting agreement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

In the case of derivatives, the Bank makes use of International Swaps and Derivatives Association (ISDA) contracts, which limit the exposure via the application of netting, and Credit Support Annex (CSAs), which further reduce the total exposure with the counterparty. Under these agreements, the total exposure with the counterparty is calculated on a daily basis taking into account any netting arrangements and collaterals.

The same process is applied in the case of repo transactions where standard Global Master Repurchase Agreements (GMRAs) are used. The exposure (the net difference between repo cash and the market value of the securities) is calculated on a daily basis and collateral is transferred between the counterparties thus minimising the exposure.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Forbearance practices on lending activities

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition.

Forbearance practices as monitored and reported by the Bank, based on the European Banking Authority Implementing Technical Standards (EBA ITS), occur only in the cases where the contractual payment terms of a loan have been modified, as the borrower is considered unable to comply with the exsiting loan's terms due to apparent financial difficulties and the Bank grants a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties.

All other types of modifications granted by the Bank, where there is no apparent financial difficulty of the borrower and may be driven by factors of a business nature are not classified as forbearance measures.

Classification of Forborne loans

Forborne loans are classified either as non-impaired (Stage 2), or impaired (Stage 3) by assessing their delinquency and credit quality status.

Credit impaired forborne loans enter initially a probation period of one year where the borrowers' payment performance is closely monitored. If at the end of the abovementioned period, the borrowers have complied with the terms of the program and there are no past due amounts and concerns regarding the loans' full repayment, the loans are then reported as non-impaired forborne loans (Stage 2). In addition, non-impaired forborne loans, including those that were previously classified as credit impaired and complied with the terms of the program, are monitored over a period of two years. If, at the end of that period, the borrowers have made regular payments of a significant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit impaired nor any other SICR criteria are met they exit forborne status and are classified as Stage 1. Particularly, the category of credit impaired forborne loans includes those that (a) at the date when forbearance measures were granted, were more than 90 days past due or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non-impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non- impaired and during the two years monitoring period met the criteria for entering the credit impaired status.

Impairment assessment

Where forbearance measures are extended, the Bank performs an assessment of the borrower's financial condition and its ability to repay, under the Bank's Impairment Policy as described in note 2.2.16.

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Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held

The tables below represent the maximum credit risk exposure of the Bank at 31 December 2019 and 2018, without taking into account any collateral held or other credit enhancements that do not qualify for offset in the Bank's financial statements.

For on-balance sheet assets, the exposures set out below are based on the carrying amounts as reported in the balance sheet. For off-balance sheet items, exposures are shown at nominal amount.

	2019 €'000	
Credit risk exposures relating to on-balance sheet assets:		
Cash and balances with central banks	886.884	
Less:impairment allowance	(8)	**886.876**
Due from credit institutions at AC	2.405.371	
Less: impairment allowance	(44)	**2.405.327**
Due from credit institutions at FVTPL	2.310	**2.310**
Derivative financial instruments		**598**
Loans and advances to customers at AC:		
Retail lending:		
- Mortgage	11.093	
- Consumer	20.762	
- Affluent banking	21.510	
- Credit cards	726	
Wholesale lending:		
- Large corporate	1.122.943	
- Wealth management	296.283	
- International business banking	473.965	
- Shipping	188.942	
Less:impairment allowance	(47.527)	**2.088.697**
Loans and advances to customers at FVTPL		**8.731**
Investment securities at FVOCI		**537.184**
Investment securities at AC	346.489	
Less:impairment allowance	(553)	**345.936**
Investment securities at FVTPL		**2.235**
Other assets		**177**
Total		**6.278.071**
Credit risk exposures relating to off-balance sheet items (note 28):		
Financial guarantee contracts and other credit related commitments		**191.117**
Loan commitments		**377.636**
Less:impairment allowance		**(1.006)**
Total		**567.747**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held (continued)

	2018 €'000	
Credit risk exposures relating to on-balance sheet assets:		
Cash and balances with central banks	767.287	
Less:impairment allowance	(8)	**767.279**
Due from credit institutions at AC	2.151.853	
Less: impairment allowance	(94)	**2.151.759**
Due from credit institutions at FVTPL	2.235	**2.235**
Derivative financial instruments		**3.904**
Loans and advances to customers at AC:		
Retail lending:		
- Mortgage	10.615	
- Consumer	15.502	
- Affluent banking	9.189	
- Credit cards	583	
Wholesale lending:		
- Large corporate	1.218.596	
- Wealth management	297.843	
- International business banking	473.892	
- Shipping	167.551	
Less:impairment allowance	(55.426)	**2.138.345**
Loans and advances to customers at FVTPL		**11.597**
Investment securities at FVOCI		**476.279**
Investment securities at AC	277.117	
Less:impairment allowance	(546)	**276.571**
Investment securities at FVTPL		**2.014**
Other assets		**286**
Total		**5.830.269**
Credit risk exposures relating to off-balance sheet items (note 28):		
Financial guarantee contracts and other credit related commitments		**167.346**
Loan commitments		**368.946**
Less:impairment allowance		**(394)**
Total		**535.898**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Due from credit institutions

The credit quality of placements and settlement balances with credit institutions and reverse repurchase agreements receivable from credit institutions held at amortised cost and at FVTPL, based on rating agencies' counterparty ratings, is analysed as follows as at 31 December 2019 and 2018:

	2019	2018
At amortised cost:	**€'000**	€'000
Aaa to Aa3	**22.866**	598
A1 to A3	**24.988**	125.396
Baa1 to Baa3	**52.107**	6.107
Ba1 to Ba3	**-**	18.604
Caa1 to Caa3	**2.304.680**	1.952.404
Not rated	**730**	48.744
Gross carrying amount	**2.405.371**	2.151.853
Less impairment allowance	**(44)**	(94)
Carrying amount	**2.405.327**	2.151.759
At FVTPL:		
Caa1 to Caa3	**2.310**	2.235
Carrying amount	**2.407.637**	2.153.994

Amounts due from credit institutions include reverse repurchase agreements of €2.281.872 thousand (2018: €1.982.035 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2019, approximately €2.182.204 thousand (2018: €1.873.518 thousand), are fully secured by bonds which are ECB eligible and rated as investment grade.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Due from credit institutions (continued)

The movement in impairment allowance of amounts due from credit institutions in 2019 and 2018 is as follows:

	2019 12-month ECL €'000	2018 12-month ECL €'000
Balance at 1 January	**94**	137
New financial assets	**14**	10
Impact of ECL net remeasurement	**(56)**	(10)
Financial assets that have been derecognised	**(10)**	(47)
Foreign exchange	**2**	4
Balance at 31 December	**44**	94

4.2.1.3 Loans and advances to customers

(a) Credit quality of loans and advances to customers

Loans and advances to customers carried at amortised cost are classified depending on how ECL is measured.

Accordingly, loans reported as non-impaired include loans for which a '12-month ECL allowance' is recognised as they exhibit no significant increase in credit risk since initial recognition and loans for which a 'Lifetime ECL allowance' is recognised as they exhibit a significant increase in credit risk since initial recognition but are not considered to be in default.

Credit-impaired loans category includes loans that are considered to be in default, for which a loss allowance equal to 'Lifetime ECL' is recognised.

Loans and advances to customers carried at FVTPL are not subject to ECL measurement and therefore are not included in the quantitative information provided in the below sections for loans and advances measured at amortised cost, except where indicated.

The Bank's accounting policy regarding impairment of financial assets is set out in note 2.2.16.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following tables present the total gross carrying and nominal amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances and credit related commitments respectively that are classified as non-impaired (Stage 1 and Stage 2) and those classified as credit-impaired (Stage 3). They also present the total impairment allowance recognised in respect of all loans and advances and credit related commitments, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk. In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount.

The following tables present information about the credit quality of the gross carrying amount of loans and advances to customers carried at amortised cost, the nominal exposures of credit related commitments and the respective impairment allowance, as well as the carrying amount of loans and advances to customers carried at FVTPL as at 31 December 2019 and 2018:

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4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2019								
	Non-impaired		Credit-impaired		Impairment allowance				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total gross carrying amount / nominal exposure	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Carrying amount**	**Value of collateral**
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	**€'000**	**€'000**
Loans and advances to customers at amortised cost:									
Retail lending:									
- Mortgage	11.093	-	-	11.093	-	-	-	**11.093**	
Value of collateral	*11.063*	-	-						***11.063***
- Consumer	20.752	1	9	20.762	119	-	9	**20.634**	
Value of collateral	*803*	-	-						***803***
- Affluent banking	20.879	260	371	21.510	22	1	16	**21.471**	
Value of collateral	*20.232*	*199*	*355*						***20.786***
- Credit card	709	10	7	726	2	-	5	**719**	
Value of collateral	*71*	*5*	*1*						***77***
Wholesale lending:									
- Large corporate	979.661	94.578	48.704	1.122.943	1.557	1.111	29.172	**1.091.103**	
Value of collateral	*691.937*	*81.319*	*41.394*						***814.650***
- Wealth management	257.929	17.869	20.485	296.283	180	299	13.521	**282.283**	
Value of collateral	*249.586*	*17.432*	*16.104*						***283.122***
-International business banking	472.217	472	1.276	473.965	15	-	1	**473.949**	
Value of collateral	*471.348*	*472*	*1.275*						***473.095***
- Shipping	187.192	-	1.750	188.942	44	-	1.453	**187.445**	
Value of collateral	*187.163*	-	*1.749*						***188.912***
	1.950.432	**113.190**	**72.602**	**2.136.224**	**1.939**	**1.411**	**44.177**	**2.088.697**	***1.792.508***
Loans and advances to customers at FVTPL:									
- Large corporate								**8.731**	***8.536***
Total	**1.950.432**	**113.190**	**72.602**	**2.136.224**	**1.939**	**1.411**	**44.177**	**2.097.428**	***1.801.044***
Value of collateral	***1.632.203***	***99.427***	***60.878***	***1.792.508***					
Credit related commitments:									
Financial guarantee contracts and other credit related commitments	154.966	36.021	130	191.117	76	242	-		
Loan commitments	339.067	38.231	338	377.636	315	373	-		
	494.033	**74.252**	**468**	**568.753**	**391**	**615**	**-**		
Value of collateral	***202.254***	***34.146***	***130***	***236.530***					

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

31 December 2018

	Non-impaired		Credit-impaired		Impairment allowance				
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total gross carrying amount / nominal exposure €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	**Carrying amount €'000**	**Value of collateral €'000**
Loans and advances to customers at amortised cost:									
Retail lending:									
- Mortgage	10.615	-	-	10.615	-	-	-	**10.615**	
Value of collateral	*10.615*	-	-						***10.615***
- Consumer	15.469	7	26	15.502	91	-	26	**15.385**	
Value of collateral	*846*	-	-						***846***
- Affluent banking	8.970	219	-	9.189	1	1	-	**9.187**	
Value of collateral	*8.405*	*207*	-						***8.612***
- Credit card	564	2	17	583	2	-	7	**574**	
Value of collateral	*68*	-	-						***68***
Wholesale lending:									
- Large corporate	1.091.519	73.413	53.664	1.218.596	758	1.136	32.199	**1.184.503**	
Value of collateral	*846.600*	*60.931*	*46.830*						***954.361***
- Wealth management	241.124	21.089	35.630	297.843	91	135	20.923	**276.694**	
Value of collateral	*230.161*	*19.205*	*31.498*						***280.864***
-International business banking	473.853	34	5	473.892	-	-	5	**473.887**	
Value of collateral	*471.128*	*24*	*2*						***471.154***
- Shipping	167.545	6	-	167.551	51	-	-	**167.500**	
Value of collateral	*167.235*	-	-						***167.235***
	2.009.659	**94.770**	**89.342**	**2.193.771**	**994**	**1.272**	**53.160**	**2.138.345**	***1.893.755***
Loans and advances to customers at FVTPL:									
- Large corporate								**11.597**	***11.596***
Total	**2.009.659**	**94.770**	**89.342**	**2.193.771**	**994**	**1.272**	**53.160**	**2.149.942**	***1.905.351***
Value of collateral	***1.735.058***	***80.367***	***78.330***	***1.893.755***					
Credit related commitments:									
Financial guarantee contracts and other credit related commitments	161.557	5.346	443	167.346	40	40	-		
Loan commitments	340.216	28.344	386	368.946	264	50	-		
	501.773	**33.690**	**829**	**536.292**	**304**	**90**	**-**		
Value of collateral	***109.927***	***3.099***	***358***	***113.384***					

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The Bank assesses the credit quality of its loans and advances to customers and credit related commitments that are subject to ECL using internal credit rating systems for its portfolio which are based on a variety of quantitative and qualitative factors.

The following tables present the risk distribution of the gross carrying amount of loans and advances to customers carried at amortised cost and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocations:

	31 December 2019			
	Non-impaired		Credit-impaired	
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	**Total gross carrying amount €'000**
Loans and advances to customers:				
Retail lending:				
- Mortgage				
Strong	11.093	-	-	**11.093**
- Consumer				
Strong	3.488	1	-	**3.489**
Satisfactory	17.264	-	-	**17.264**
Impaired	-	-	9	**9**
- Affluent banking				
Strong	2.698	-	-	**2.698**
Satisfactory	18.181	260	-	**18.441**
Impaired	-	-	371	**371**
- Credit card				
Strong	372	1	-	**373**
Satisfactory	337	9	-	**346**
Impaired	-	-	7	**7**
Wholesale lending:				
- Large corporate				
Strong	272.086	42	-	**272.128**
Satisfactory	707.575	58.210	-	**765.785**
Watch list	-	36.326	-	**36.326**
Impaired	-	-	48.704	**48.704**
- Wealth management				
Strong	29.460	-	-	**29.460**
Satisfactory	228.469	15.732	-	**244.201**
Watch list	-	2.137	-	**2.137**
Impaired	-	-	20.485	**20.485**
- International business banking				
Strong	456.366	2	-	**456.368**
Satisfactory	15.851	470	-	**16.321**
Impaired	-	-	1.276	**1.276**
- Shipping				
Strong	116.739	-	-	**116.739**
Satisfactory	70.453	-	-	**70.453**
Impaired	-	-	1.750	**1.750**
	1.950.432	**113.190**	**72.602**	**2.136.224**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2018			
	Non-impaired		Credit-impaired	
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	**Total gross carrying amount €'000**
Loans and advances to customers:				
Retail lending:				
- Mortgage Strong	10.615	-	-	**10.615**
- Consumer				
Strong	3.056	-	-	**3.056**
Satisfactory	12.413	1	-	**12.414**
Watch list	-	6	-	**6**
Impaired	-	-	26	**26**
- Affluent banking				
Strong	1.087	-	-	**1.087**
Satisfactory	7.883	219	-	**8.102**
- Credit card				
Strong	338	-	-	**338**
Satisfactory	226	2	-	**228**
Impaired	-	-	17	**17**
Wholesale lending:				
- Large corporate				
Strong	577.566	-	-	**577.566**
Satisfactory	513.451	44.875	-	**558.326**
Watch list	502	28.538	-	**29.040**
Impaired	-	-	53.664	**53.664**
- Wealth management				
Strong	21.248	-	-	**21.248**
Satisfactory	219.876	18.916	-	**238.792**
Watch list	-	2.173	-	**2.173**
Impaired	-	-	35.630	**35.630**
- International business banking				
Strong	459.271			**459.271**
Satisfactory	14.582	34		**14.616**
Impaired	-	-	5	**5**
- Shipping				
Strong	108.955	-	-	**108.955**
Satisfactory	58.590	6	-	**58.596**
	2.009.659	**94.770**	**89.342**	**2.193.771**

Loans and advances to customers measured at FVTPL with a carrying amount of €8.731 thousand as at 31 December 2019 (2018: €11.597 thousand) are rated as strong as per the credit quality classification categories of the Bank.

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4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2019			
	Non-impaired		Credit-impaired	
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total nominal exposure €'000
Credit related commitments:				
Financial guarantee contracts and other credit related commitments:				
Strong	104.801	-	-	**104.801**
Satisfactory	50.165	34.910	-	**85.075**
Watch list	-	1.111	-	**1.111**
Impaired	-	-	130	**130**
Loan commitments:				
Strong	185.105	2	-	**185.107**
Satisfactory	153.962	34.088	-	**188.050**
Watch list	-	4.141	-	**4.141**
Impaired	-	-	338	**338**
	494.033	**74.252**	**468**	**568.753**

	31 December 2018			
	Non-impaired		Credit-impaired	
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total nominal exposure €'000
Credit related commitments:				
Financial guarantee contracts and other credit related commitments:				
Strong	106.284	-	-	**106.284**
Satisfactory	55.253	3.075	-	**58.328**
Watch list	20	2.271	443	**2.734**
Loan commitments:				
Strong	138.983	-	-	**138.983**
Satisfactory	201.189	25.820	-	**227.009**
Watch list	44	2.524	386	**2.954**
	501.773	**33.690**	**829**	**536.292**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The table below depicts the internal credit rating bands (MRA rating scale or equivalent) that correspond to the credit quality classification categories presented in the above tables.

Credit quality classification categories	**Internal Credit Rating**
Strong	CR1 - CR2
Satisfactory	CR3 - CR6
Watch list	CR7 - CR9
Impaired	CR7 - CR10

The following tables present the movement of the gross carrying amounts for loans and advances to customers carried at amortised cost by product line and stage and is calculated by reference to the opening and closing balances for the reporting year from 1 January 2019 to 31 December 2019, and from 1 January 2018 to 31 December 2018, respectively:

	31 December 2019						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Gross carrying amount at 1 January	1.974.041	94.542	89.299	35.618	228	43	**2.193.771**
New financial assets originated or purchased	461.853	-	-	21.195	-	-	**483.048**
Transfers:							
- To 12-month ECL	17.014	(16.939)	(75)	12	(2)	(10)	**-**
- To lifetime ECL not credit-impaired	(49.156)	49.226	(70)	(625)	625	-	**-**
- To lifetime ECL credit- impaired	(10.107)	(998)	11.105	(384)	-	384	**-**
Financial assets derecognised	(11.783)	(448)	(82)	(278)	-	-	**(12.591)**
Amounts written off	-	-	(18.213)	-	-	-	**(18.213)**
Repayments	(520.108)	(17.930)	(12.672)	(4.525)	(29)	(11)	**(555.275)**
Foreign exchange difference and other movements	35.245	5.466	2.923	2.420	(551)	(19)	**45.484**
Gross carrying amount at 31 December	**1.896.999**	**112.919**	**72.215**	**53.433**	**271**	**387**	**2.136.224**
Less impairment allowance	(1.796)	(1.410)	(44.147)	(143)	(1)	(30)	**(47.527)**
Carrying amount at 31 December	**1.895.203**	**111.509**	**28.068**	**53.290**	**270**	**357**	**2.088.697**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2018						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Gross carrying amount at 1 January	1.745.317	85.976	99.048	24.061	50	48	**1.954.500**
New financial assets originated or purchased	467.894	-	-	13.457	-	-	**481.351**
Transfers:							
- To 12-month ECL	13.605	(13.279)	(326)	(238)	236	2	**-**
- To lifetime ECL not credit-impaired	(49.519)	49.593	(74)	34	(38)	4	**-**
- To lifetime ECL credit- impaired	(1.271)	(27.677)	28.948	-	4	(4)	**-**
Financial assets derecognised	(2.394)	(700)	-	(299)	-	-	**(3.393)**
Amounts written off	-	-	(25.689)	-	-	(12)	**(25.701)**
Repayments	(240.435)	(6.561)	(14.481)	(2.406)	(16)	(10)	**(263.909)**
Foreign exchange difference and other movements	40.844	7.190	1.873	1.009	(8)	15	**50.923**
Gross carrying amount at 31 December	**1.974.041**	**94.542**	**89.299**	**35.618**	**228**	**43**	**2.193.771**
Less impairment allowance	(900)	(1.270)	(53.127)	(94)	(2)	(33)	**(55.426)**
Carrying amount at 31 December	**1.973.141**	**93.272**	**36.172**	**35.524**	**226**	**10**	**2.138.345**

The contractual amount outstanding on lending exposures that were written off during the year ended 31 December 2019 and that are still subject to enforcement activity is €22.591 thousand (2018: €20.458 thousand).

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following tables present the movement of the nominal amounts of financial guarantee contracts and other credit related commitments, and loan commitments by stage and is calculated by reference to the opening and closing balances for the reporting year from 1 January 2019 to 31 December 2019, and from 1 January 2018 to 31 December 2018, respectively:

31 December 2019

	Loan commitments			Financial guarantee contracts and other credit related commitments			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Nominal amount at 1 January	340.216	28.344	386	161.557	5.346	443	**536.292**
Net increase/(decrease)	20.051	(11.235)	(126)	27.201	(3.115)	(315)	**32.461**
Transfers:							
- To 12-month ECL	9.888	(9.850)	(38)	853	(852)	(1)	**-**
- To lifetime ECL not credit-impaired	(30.962)	30.982	(20)	(34.644)	34.644	-	**-**
- To lifetime ECL credit-impaired	(126)	(10)	136	(1)	(2)	3	**-**
Nominal amount at 31 December	**339.067**	**38.231**	**338**	**154.966**	**36.021**	**130**	**568.753**

31 December 2018

	Loan commitments			Financial guarantee contracts and other credit related commitments			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Nominal amount at 1 January	309.691	2.203	650	128.050	-	118	**440.712**
Net increase/(decrease)	57.357	(656)	(299)	39.172	-	6	**95.580**
Transfers:							
- To 12-month ECL	4.703	(4.703)	-	-	-	-	**-**
- To lifetime ECL not credit-impaired	(31.519)	31.520	(1)	(5.346)	5.346	-	**-**
- To lifetime ECL credit-impaired	(16)	(20)	36	(319)	-	319	**-**
Nominal amount at 31 December	**340.216**	**28.344**	**386**	**161.557**	**5.346**	**443**	**536.292**

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4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following tables present the movement of the impairment allowances for loans and advances to customers by product line and stage in 2019 and 2018 as follows:

	31 December 2019						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Balance at 1 January	900	1.270	53.127	94	2	33	**55.426**
New financial assets originated or purchased	369	-	-	53	-	-	**422**
Transfers:							
- To 12-month ECL	430	(357)	(73)	1	-	(1)	**-**
- To lifetime ECL not credit-impaired	(78)	96	(18)	-	-	-	**-**
- To lifetime ECL credit- impaired	(13)	(164)	177	-	-	-	**-**
Impact of ECL net remeasurement	184	563	9.136	(2)	1	14	**9.896**
Amounts written off (previously provided)	-	-	(18.186)	-	-	-	**(18.186)**
Recoveries from written off loans	-	-	10	-	-	-	**10**
Foreign exchange difference and other movements	4	2	(26)	(3)	(2)	(16)	**(41)**
Balance at 31 December	**1.796**	**1.410**	**44.147**	**143**	**1**	**30**	**47.527**

	31 December 2018						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Balance at 1 January	1.727	1.982	67.102	71	2	51	**70.935**
New financial assets originated or purchased	500	-	-	64	-	-	**564**
Transfers:							
- To 12-month ECL	227	(227)	-	1	(1)	-	**-**
- To lifetime ECL not credit-impaired	(309)	348	(39)	(1)	1	-	**-**
- To lifetime ECL credit- impaired	(16)	(1.016)	1.032	-	-	-	**-**
Impact of ECL net remeasurement	(1.250)	183	10.722	(41)	-	(7)	**9.607**
Amounts written off (previously provided)	-	-	(25.690)	-	-	(11)	**(25.701)**
Foreign exchange difference and other movements	21	-	-	-	-	-	**21**
Balance at 31 December	**900**	**1.270**	**53.127**	**94**	**2**	**33**	**55.426**

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4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following tables present the movement of the impairment allowances on financial guarantee contracts and other credit related commitments, and loan commitments by stage in 2019 and 2018 as follows:

	31 December 2019				
	Loan commitments		Financial guarantee contracts and other credit related commitments		
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Total €'000
Balance at 1 January	264	50	40	40	394
Net increase / (decrease)	23	(2)	187	(22)	**186**
Transfers:					
- To 12-month ECL	2	(2)	9	(9)	**-**
- To lifetime ECL not credit-impaired	(339)	339	(240)	240	**-**
- To lifetime ECL credit-impaired	-	-	-	-	**-**
Impact of ECL net remeasurement	365	(12)	80	(7)	**426**
Balance at 31 December	**315**	**373**	**76**	**242**	**1.006**

	31 December 2018				
	Loan commitments		Financial guarantee contracts and other credit related commitments		
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Total €'000
Balance at 1 January	124	4	121	-	**249**
Net increase	212	-	34	-	**246**
Transfers:					
- To 12-month ECL	-	-	-	-	**-**
- To lifetime ECL not credit-impaired	(22)	22	(21)	21	**-**
- To lifetime ECL credit-impaired	-	-	-	-	**-**
Impact of ECL net remeasurement	(50)	24	(94)	19	**(101)**
Balance at 31 December	**264**	**50**	**40**	**40**	**394**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Impairment allowances on financial guarantee contracts and other credit related commitments and loan commitments is presented within "Other liabilities" (note 25).

The impairment losses relating to loans and advances to customers and on financial guarantee contracts and other credit related commitments and loan commitments recognised in the Bank's income statement for the year ended 31 December 2019 amounted to €11.100 thousand (2018: €10.316 thousand) and are analysed as follows:

	2019 €'000	2018 €'000
Impairment loss on loans and advances to customers	**10.319**	10.171
Modification loss on loans and advances to customers	**169**	-
Impairment loss on loan commitments	**374**	186
Impairment loss / (reversal) on financial guarantee contracts and other credit related commitments	**238**	(41)
Total	**11.100**	10.316

Credit-impaired loans and advances to customers

The following table presents the ageing analysis of credit-impaired (Stage 3) loans and advances to customers by product line at their gross carrying amounts, as well as the respective cumulative impairment allowances and the value of collaterals held to mitigate credit risk.

31 December 2019

	Retail lending				Wholesale lending				
	Mortgage €'000	Consumer €'000	Affluent banking €'000	Credit card €'000	Large corporate €'000	Wealth management €'000	International business banking €'000	Shipping €'000	**Lifetime ECL credit-impaired €'000**
Up to 89 days	-	-	355	1	23.378	9.457	-	-	**33.191**
90 to 179 days	-	-	-	3	433	532	-	9	**977**
180 to 360 days	-	-	16	1	2.497	-	1.276	1.741	**5.531**
More than 360 days	-	9	-	2	22.396	10.496	-	-	**32.903**
Total gross carrying amount	**-**	**9**	**371**	**7**	**48.704**	**20.485**	**1.276**	**1.750**	**72.602**
Impairment allowance	-	(9)	(16)	(5)	(29.172)	(13.521)	(1)	(1.453)	**(44.177)**
Carrying amount	**-**	**-**	**355**	**2**	**19.532**	**6.964**	**1.275**	**297**	**28.425**
Value of collateral	**-**	**-**	**355**	**1**	**41.394**	**16.104**	**1.275**	**1.749**	**60.878**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2018								
	Retail lending				Wholesale lending				
	Mortgage €'000	Consumer €'000	Affluent banking €'000	Credit card €'000	Large corporate €'000	Wealth management €'000	International business banking €'000	Shipping €'000	**Lifetime ECL credit-impaired €'000**
Up to 89 days	-	-	-	-	18.969	11.509	-	-	**30.478**
90 to 179 days	-	17	-	12	286	519	2	-	**836**
180 to 360 days	-	-	-	1	4.028	1.675	2	-	**5.706**
More than 360 days	-	9	-	4	30.381	21.927	1	-	**52.322**
Total gross carrying amount	**-**	**26**	**-**	**17**	**53.664**	**35.630**	**5**	**-**	**89.342**
Impairment allowance	-	(26)	-	(7)	(32.199)	(20.923)	(5)	-	**(53.160)**
Carrying amount	**-**	**-**	**-**	**10**	**21.465**	**14.707**	**-**	**-**	**36.182**
Value of collateral	**-**	**-**	**-**	**-**	**46.830**	**31.498**	**2**	**-**	**78.330**

(b) Forbearance

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition. The Bank has employed a range of forbearance solutions in order to enhance the management of customer relationships and the effectiveness of collection efforts, as well as to improve the recoverability of cash flows and minimise credit losses for both retail and wholesale portfolios.

The following tables present an analysis of the Bank's forbearance activities for loans measured at amortised cost. The tables below are presented on a gross carrying amount basis, while cumulative impairment allowance is presented separately, in line with the Bank's internal credit risk monitoring and reporting.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

The following table presents a summary of the types of the Bank's forborne activities:

	2019 €'000	2018 €'000
Forbearance measures:		
Interest only schedule	**20.504**	20.310
Reduced payment schedule	**10.154**	16.945
Term extension	**31.168**	41.420
Arrears capitalisation	**2.334**	6.537
Grace period	**980**	1.577
Interest rate reduction	**96**	-
Operational restructuring	**-**	40
Total gross carrying amount	**65.236**	86.829
Less impairment allowance	**(20.148)**	(17.308)
Total carrying amount	**45.088**	69.521

The following tables presents a summary of the credit quality of forborne loans and advances to customers:

	31 December 2019		
	Total loans & advances at amortised cost €'000	**Forborne loans & advances €'000**	**% of forborne loans & advances to total loans & advances**
Gross carrying amount:			
12-month ECL	1.950.432	-	-
Lifetime ECL not credit-impaired	113.190	29.634	26,2
Lifetime ECL credit-impaired	72.602	35.602	49,0
Total gross carrying amount	**2.136.224**	**65.236**	**3,1**
Impairment allowance:			
12-month ECL	1.939	-	-
Lifetime ECL not credit-impaired	1.411	513	36,4
Lifetime ECL credit-impaired	44.177	19.635	44,4
Total impairment allowance	**47.527**	**20.148**	**42,4**
Carrying amount	**2.088.697**	**45.088**	**2,2**
Collateral received	**1.790.767**	**60.969**	

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

	31 December 2018		
	Total loans & advances at amortised cost €'000	**Forborne loans & advances €'000**	**% of forborne loans & advances to total loans & advances**
Gross carrying amount:			
12-month ECL	2.009.659	2.018	0
Lifetime ECL not credit-impaired	94.770	40.147	42,4
Lifetime ECL credit-impaired	89.342	44.664	50,0
Total gross carrying amount	**2.193.771**	**86.829**	**3,9**
Impairment allowance:			
12-month ECL	994	1	0
Lifetime ECL not credit-impaired	1.272	575	45,2
Lifetime ECL credit-impaired	53.160	16.732	31,5
Total impairment allowance	**55.426**	**17.308**	**31,2**
Carrying amount	**2.138.345**	**69.521**	**3,2**
Collateral received	**1.893.755**	**79.859**	

The following table presents the movement of forborne loans and advances to customers:

	2019 €'000	2018 €'000
Gross carrying amount at 1 January	**86.829**	111.977
Forbearance measures in the year [1]	**9.222**	23.753
Repayment of loans	**(12.866)**	(13.405)
Forborne loans derecognised	**(578)**	(700)
Write-offs of forborne loans	**(3.663)**	(4.749)
Loans & advances that exited forbearance status	**(13.708)**	(33.404)
Other	**-**	3.357
Gross carrying amount	**65.236**	86.829
Less impairment allowance	**(20.148)**	(17.308)
Carrying amount at 31 December	**45.088**	69.521

[1] Forbearance measures in the year depict loans to which forbearance measures were granted during the reporting period.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

The following table presents the Bank's exposure to forborne loans and advances to customers by product line:

	2019	2018
	€'000	€'000
Retail lending:		
- Consumer	**-**	3
- Affluent banking	**-**	207
Wholesale lending:		
- Large corporate	**40.744**	45.954
- Wealth management	**24.492**	40.665
Total gross carrying amount	**65.236**	86.829
Less impairment allowance	**(20.148)**	(17.308)
Total carrying amount	**45.088**	69.521

The following table presents the Bank's exposure to forborne loans and advances to customers by geographical region:

	2019	2018
	€'000	€'000
Cyprus	**58.686**	78.969
Other European countries	**6.326**	6.596
Other countries	**224**	1.264
Total gross carrying amount	**65.236**	86.829
Less impairment allowance	**(20.148)**	(17.308)
Total carrying amount	**45.088**	69.521

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

The following table provides information on modifications due to forbearance measures on lending exposures which have not resulted in derecognition. Such financial assets were modified while they had an impairment allowance measured at an amount equal to lifetime ECL.

Modified lending exposures	2019 €'000	2018 €'000
Loans modified during the year with impairment allowance measured at an amount equal to lifetime ECL		
Carrying amount	**11.020**	37.087
Modification loss	**169**	-
Loans modified since initial recognition at a time when impairment allowance was based on lifetime ECL		
Gross carrying amount at 31 December for which impairment allowance has changed to 12-month ECL measurement	**8.860**	6.298

The contractual amount outstanding on lending exposures that were written off during the year ended 31 December 2019 and that are still subject to enforcement activity is €22.591 thousand (2018: €20.458 thousand).

(c) Collaterals held and other credit enhancements

The Loan-to-Value (LTV) ratio of the Bank's lending reflects the gross loan exposure less any cash collateral held at the balance sheet date over the market value of the property held as collateral.

The LTV ratio as at 31 December 2019 and 2018 is presented below:

	2019 €'000	2018 €'000
Less than 50%	**531.096**	374.873
50%-70%	**269.479**	236.775
71%-80%	**33.226**	45.254
81%-90%	**60.599**	41.676
91%-100%	**17.150**	32.667
101%-120%	**52.027**	45.371
121%-150%	**42.991**	33.731
Greater than 150%	**101.283**	60.123
Total exposure	**1.107.851**	870.470
Average LTV	**74%**	75%

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Collaterals held and other credit enhancements (continued)

The breakdown of collateral and guarantees for loans and advances to customers at amortised cost is presented below:

	31 December 2019 Value of collateral received				
	Real Estate €'000	Financial €'000	Other Collateral €'000	Total €'000	Guarantees received €'000
Retail lending	26.257	6.466	7	32.730	-
Wholesale lending	955.768	590.624	200.246	1.746.638	13.140
Total	**982.025**	**597.090**	**200.253**	**1.779.368**	**13.140**

	31 December 2018 Value of collateral received				
	Real Estate €'000	Financial €'000	Other Collateral €'000	Total €'000	Guarantees received €'000
Retail lending	16.299	3.832	10	20.141	-
Wholesale lending	812.453	843.209	202.752	1.858.414	15.200
Total	**828.752**	**847.041**	**202.762**	**1.878.555**	**15.200**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities

The movement in impairment allowance of investment securities in 2019 and 2018 is as follows:

	31 December 2019	
	Investment securities at FVOCI 12-month ECL €'000	**Investment securities at amortised cost 12-month ECL €'000**
Balance at 1 January	733	546
New financial assets purchased	146	79
Impact of ECL net remeasurement	(359)	(72)
Financial assets disposed during the year	(20)	-
Financial assets redeemed during the year	(51)	-
Foreign exchange	(1)	-
Balance at 31 December	**448**	**553**

	31 December 2018	
	Investment securities at FVOCI 12-month ECL €'000	**Investment securities at amortised cost 12-month ECL €'000**
Balance at 1 January	1.114	748
New financial assets purchased	245	245
Impact of ECL net remeasurement	(392)	(446)
Financial assets disposed during the year	(148)	-
Financial assets redeemed during the year	(83)	(1)
Foreign exchange	(3)	-
Balance at 31 December	**733**	**546**

During the year, the impairment allowance of the investment securities of the Bank decreased by €278 thousand, mainly due to the improvement of the credit quality of the Greek corporate bonds.

During 2018, the impairment allowance of the investment securities of the Bank decreased by €583 thousand, mainly due to the improvement of the credit quality of the Cyprus government bonds. The decrease relative to these debt securities amounts to €459 thousand.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities (continued)

The tables below present an analysis of debt securities by external credit rating agency designation at 31 December 2019 and 2018 based on Moody's ratings or their equivalent:

	31 December 2019		
	Investment securities at FVOCI €'000	**Investment securities at amortised cost €'000**	**Total €'000**
Aaa	247.037	-	**247.037**
Aa1 to Aa3	75.008	-	**75.088**
A1 to A3	49.732	-	**49.732**
Baa1 to Baa3	1.130	-	**1.130**
Ba1 to Ba3	157.100	346.489	**503.589**
B1 to B3	-	-	**-**
Caa1 to Caa3	-	-	**-**
Not rated	7.177	-	**7.177**
Gross carrying amount	**537.184**	**346.489**	**883.673**
Impairment allowance	-	(553)	**(553)**
Carrying amount	**537.184**	**345.936**	**883.120**

	31 December 2018		
	Investment securities at FVOCI €'000	**Investment securities at amortised cost €'000**	**Total €'000**
Aaa	260.542	-	**260.542**
Aa1 to Aa3	25.736	-	**25.736**
A1 to A3	2.521	-	**2.521**
Baa1 to Baa3	1.298	-	**1.298**
Ba1 to Ba3	101.168	277.117	**378.285**
B1 to B3	65.956	-	**65.956**
Caa1 to Caa3	11.913	-	**11.913**
Not rated	7.145	-	**7.145**
Gross carrying amount	**476.279**	**277.117**	**753.396**
Impairment allowance	-	(546)	**(546)**
Carrying amount	**476.279**	**276.571**	**752.850**

All debt securities are classified in 12-month ECL category.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

The Bank holds diversified portfolios across markets and countries and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

The following tables break down the Bank's exposure into loans and advances to customers and exposures of credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line, industry and geographical region and impairment allowance by product line, industry and geographical region.

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors

For this table, the Bank has allocated exposures to regions based on the country of activity/economic interest of counterparties.

	31 December 2019												
	Cyprus				Other European countries				Other countries				
	Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount				
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	Total carrying amount / nominal amount €'000
Loans and advances to customers													
Retail lending:													
- Mortgage	11.093	-	-	-	-	-	-	-	-	-	-	-	**11.093**
- Consumer	20.752	1	9	(128)	-	-	-	-	-	-	-	-	**20.634**
- Affluent banking	20.687	260	371	(39)	192	-	-	-	-	-	-	-	**21.471**
- Credit cards	706	10	7	(7)	3	-	-	-	-	-	-	-	**719**
Wholesale lending:													
- Large corporate	636.791	78.703	47.412	(30.855)	318.547	15.875	54	(585)	33.054	-	1.238	(400)	**1.099.834**
- Wealth management	181.327	11.567	19.694	(13.206)	70.288	6.196	671	(672)	6.314	106	120	(122)	**282.283**
- International business banking	115.581	470	-	(2)	38.391	-	1.276	(5)	318.245	2	-	(9)	**473.949**
- Shipping	14.842	-	-	(3)	153.466	-	1.750	(1.490)	18.884	-	-	(4)	**187.445**
Total	**1.001.779**	**91.011**	**67.493**	**(44.240)**	**580.887**	**22.071**	**3.751**	**(2.752)**	**376.497**	**108**	**1.358**	**(535)**	**2.097.428**
Off-balance sheet items													
Financial guarantee contracts and other credit related commitments	150.599	33.874	130	(297)	2.720	2.147	-	(21)	1.647	-	-	-	**190.799**
Loan commitments	276.944	35.690	338	(665)	19.524	-	-	(4)	42.599	2.541	-	(19)	**376.948**
Total	**427.543**	**69.564**	**468**	**(962)**	**22.244**	**2.147**	**-**	**(25)**	**44.246**	**2.541**	**-**	**(19)**	**567.747**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2018												
	Cyprus				Other European countries				Other countries				
	Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount				
	12-month ECL €'000	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Impairment allowance €'000**	**12-month ECL €'000**	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Impairment allowance €'000**	**12-month ECL €'000**	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Impairment allowance €'000**	**Total carrying amount / nominal amount €'000**
Loans and advances to customers													
Retail lending:													
- Mortgage	10.615	-	-	-	-	-	-	-	-	-	-	-	**10.615**
- Consumer	15.469	7	26	(117)									**15.385**
- Affluent banking	8.767	219	-	(2)	203	-	-	-	-	-	-	-	**9.187**
- Credit cards	560	2	17	(9)	4	-	-	-	-	-	-	-	**574**
Wholesale lending:													
- Large corporate	476.106	61.019	52.515	(33.443)	587.497	11.906	-	(224)	39.513	488	1.149	(426)	**1.196.100**
- Wealth management	163.928	14.629	34.860	(20.348)	68.758	6.460	649	(676)	8.438	-	121	(125)	**276.694**
- International business banking	66.923	-	-	-	36.612	24	5	(5)	370.318	10	-	-	**473.887**
- Shipping	15.427	-	-	(11)	135.983	1	-	(38)	16.135	5	-	(2)	**167.500**
Total	**757.795**	**75.876**	**87.418**	**(53.930)**	**829.057**	**18.391**	**654**	**(943)**	**434.404**	**503**	**1.270**	**(553)**	**2.149.942**
Off-balance sheet items													
Financial guarantee contracts and other credit related commitments	142.770	5.346	440	(78)	18.131	-	-	(2)	657	-	2	-	**167.266**
Loan commitments	276.619	23.639	344	(302)	23.361	12	1	(2)	40.236	4.693	41	(10)	**368.632**
Total	**419.389**	**28.985**	**784**	**(380)**	**41.492**	**12**	**1**	**(4)**	**40.893**	**4.693**	**43**	**(10)**	**535.898**

As at 31 December 2019, the carrying amount of the Bank's loans and advances to customers measured at FVTPL amounted to €8.731 thousand (2018: €11.597), which was included in the wholesale lending portfolio in other countries under 12-month ECL.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2019				
	Multilateral development banks €'000	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets					
Balances with central banks	-	877.330	-	-	**877.330**
Due from credit institutions at AC	-	279	2.350.479	54.613	**2.405.371**
Due from credit institutions at FVTPL	-	-	2.310	-	**2.310**
Derivative financial instruments	-	24	574	-	**598**
Investment debt securities at FVOCI	138.247	91.457	279.300	28.180	**537.184**
Investment debt securities at AC	-	346.489	-	-	**346.489**
Other investment securities mandatorily at FVTPL	-	1.987	248	-	**2.235**
Other assets	-	132	-	45	**177**
Gross carrying amount	**138.247**	**1.317.698**	**2.632.911**	**82.838**	**4.171.694**
Balances with central banks	-	8	-	-	**8**
Due from credit institutions	-	-	44	-	**44**
Derivative financial instruments	-	-	-	-	**-**
Investment debt securities at AC	-	553	-	-	**553**
Other assets	-	-	-	-	**-**
Impairment allowance	**-**	**561**	**44**	**-**	**605**
Carrying amount	**138.247**	**1.317.137**	**2.632.867**	**82.838**	**4.171.089**

	31 December 2018				
	Multilateral development banks €'000	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets					
Balances with central banks	-	759.293	-	-	**759.293**
Due from credit institutions at AC	-	48.534	1.998.836	104.483	**2.151.853**
Due from credit institutions at FVTPL	-	-	2.235	-	**2.235**
Derivative financial instruments	-	103	3.717	84	**3.904**
Investment debt securities at FVOCI	123.077	101.168	252.034	-	**476.279**
Investment debt securities at AC	-	277.117	-	-	**277.117**
Other investment securities mandatorily at FVTPL	-	1.897	117	-	**2.014**
Other assets	-	208	25	53	**286**
Gross carrying amount	**123.077**	**1.188.320**	**2.256.964**	**104.620**	**3.672.981**
Balances with central banks	-	8	-	-	**8**
Due from credit institutions	-	-	94	-	**94**
Derivative financial instruments	-	-	-	-	**-**
Investment debt securities at AC	-	546	-	-	**546**
Other assets	-	-	-	-	**-**
Impairment allowance	**-**	**554**	**94**	**-**	**648**
Carrying amount	**123.077**	**1.187.766**	**2.256.870**	**104.620**	**3.672.333**

All assets shown in the tables above are classified in 12-month ECL category.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

The following tables break down the Bank's main exposures into balance sheet assets and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line and industry sector and impairment allowance by product line and industry sector.

31 December 2019

	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total carrying amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers																					
Retail lending:																					
- Mortgage	125	-	-	-	10.968	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**11.093**
- Consumer	17.249	-	8	(127)	3.503	-	-	(1)	1	-	-	-	-	1	-	-	-	-	-	-	**20.634**
- Affluent banking	307	-	-	-	20.572	260	371	(39)	-	-	-	-	-	-	-	-	-	-	-	-	**21.471**
- Credit cards	115	1	1	(1)	584	9	6	(6)	8	-	-	-	-	-	-	-	2	-	-	-	**719**
Wholesale lending:																					
- Large corporate	792.421	85.317	37.085	(22.663)	13.633	500	8.132	(6.037)	52.795	-	1.816	(1.447)	129.476	8.311	891	(1.177)	69	450	778	(516)	**1.099.834**
- Wealth management	126.790	9.484	14.350	(9.264)	129.324	8.384	6.136	(4.736)	1.756	-	-	-	29	-	-	-	30	-	-	-	**282.283**
- International business banking	424.890	472	-	(9)	1.940	2	1.275	(5)	4	-	-	-	45.382	-	-	(2)	-	-	-	-	**473.949**
- Shipping	187.190	-	1.750	(1.497)	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**187.445**
Total	**1.549.087**	**95.274**	**53.194**	**(33.561)**	**180.526**	**9.155**	**15.920**	**(10.824)**	**54.564**	**-**	**1.816**	**(1.447)**	**174.887**	**8.312**	**891**	**(1.179)**	**101**	**450**	**778**	**(516)**	**2.097.428**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

31 December 2018

	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total carrying amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers																					
Retail lending:																					
- Mortgage	-	-	-	-	10.615	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**10.615**
- Consumer	12.411	-	9	(100)	3.058	7	17	(17)	-	-	-	-	-	-	-	-	-	-	-	-	**15.385**
- Affluent banking	63	-	-	-	8.907	219	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	**9.187**
- Credit cards	91	2	4	(6)	473	-	13	(3)	-	-	-	-	-	-	-	-	-	-	-	-	**574**
Wholesale lending:																					
- Large corporate	940.973	54.601	44.525	(27.844)	14.221	1.540	6.668	(4.123)	27.862	5.517	-	(81)	119.183	11.755	1.356	(1.321)	877	-	1.115	(724)	**1.196.100**
- Wealth management	124.949	13.176	23.610	(12.843)	113.443	7.913	12.020	(8.306)	2.725	-	-	-	-	-	-	-	7	-	-	-	**276.694**
- International business banking	424.685	24	3	(3)	4.807	10	2	(2)	8	-	-	-	44.352	-	-	-	1	-	-	-	**473.887**
- Shipping	167.536	5	-	(51)	9	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**167.500**
Total	**1.670.708**	**67.808**	**68.151**	**(40.847)**	**155.533**	**9.690**	**18.720**	**(12.453)**	**30.595**	**5.517**	**-**	**(81)**	**163.535**	**11.755**	**1.356**	**(1.321)**	**885**	**-**	**1.115**	**(724)**	**2.149.942**

As at 31 December 2019, the carrying amount of the Bank's loans and advances to customers measured at FVTPL amounted to €8.731 thousand (2018: €11.597 thousand) and was included in the wholesale lending portfolio in commerce and services industry under 12-month ECL.

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

31 December 2019

	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Nominal amount				Nominal amount				Nominal amount				Nominal amount				Nominal amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total nominal amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Off-balance sheet items																					
Financial guarantee contracts and other credit related commitments	90.913	31.445	124	(212)	3.407	14	5	(2)	49.383	3.761	-	(78)	10.979	800	-	(26)	286	-	-	-	**190.799**
Loan commitments	208.429	34.694	290	(458)	42.370	384	48	(44)	4.661	10	-	(9)	83.554	2.436	-	(158)	53	707	-	(19)	**376.948**
Total	**299.342**	**66.139**	**414**	**(670)**	**45.777**	**398**	**53**	**(46)**	**54.044**	**3.771**	**-**	**(87)**	**94.533**	**3.236**	**-**	**(184)**	**339**	**707**	**-**	**(19)**	**567.747**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

31 December 2018

	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Nominal amount				Nominal amount				Nominal amount				Nominal amount				Nominal amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total nominal amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Off-balance sheet items																					
Financial guarantee contracts and other credit related commitments	90.322	4.890	437	(68)	6.442	15	5	-	51.848	426	-	(9)	12.641	15	-	(3)	305	-	-	-	**167.266**
Loan commitments	215.017	10.093	234	(174)	40.539	443	98	(6)	7.336	15.854	-	(10)	76.845	1.955	-	(124)	478	-	54	-	**368.632**
Total	**305.339**	**14.983**	**671**	**(242)**	**46.981**	**458**	**103**	**(6)**	**59.184**	**16.280**	**-**	**(19)**	**89.486**	**1.970**	**-**	**(127)**	**783**	**-**	**54**	**-**	**535.898**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2019								
	Central banks €'000	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets									
Balances with central banks	877.330	-	-	-	-	-	-	-	**877.330**
Due from credit institutions at AC	-	-	-	2.405.371	-	-	-	-	**2.405.371**
Due from credit institutions at FVTPL	-	-	-	2.310	-	-	-	-	**2.310**
Derivative financial instruments	-	-	4	586	8	-	-	-	**598**
Investment debt securities at FVOCI	-	207.897	-	89.211	-	-	-	240.076	**537.184**
Investment debt securities at AC	-	346.489	-	-	-	-	-	-	**346.489**
Other investment securities mandatorily at FVTPL	-	-	-	1.986	-	12	237	-	**2.235**
Other assets	-	-	132	-	-	-	-	45	**177**
Gross carrying amount	**877.330**	**554.386**	**136**	**2.499.464**	**8**	**12**	**237**	**240.121**	**4.171.694**
Balances with central banks	8	-	-	-	-	-	-	-	**8**
Due from credit institutions	-	-	-	44	-	-	-	-	**44**
Derivative financial instruments	-	-	-	-	-	-	-	-	**-**
Investment debt securities at AC	-	553	-	-	-	-	-	-	**553**
Other assets	-	-	-	-	-	-	-	-	**-**
Impairment allowance	**8**	**553**	**-**	**44**	**-**	**-**	**-**	**-**	**605**
Carrying amount	**877.322**	**553.833**	**136**	**2.499.420**	**8**	**12**	**237**	**240.121**	**4.171.089**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

31 December 2018

	Central banks €'000	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets									
Balances with central banks	759.293	-	-	-	-	-	-	-	**759.293**
Due from credit institutions at AC	-	-	-	2.151.853	-	-	-	-	**2.151.853**
Due from credit institutions at FVTPL	-	-	-	2.235	-	-	-	-	**2.235**
Derivative financial instruments	-	-	92	3.720	1	-	90	1	**3.904**
Investment debt securities at FVOCI	-	110.039	-	125.185	-	-	-	241.055	**476.279**
Investment debt securities at AC	-	277.117	-	-	-	-	-	-	**277.117**
Other investment securities mandatorily at FVTPL	-	-	-	1.897	-	12	105	-	**2.014**
Other assets	-	-	253	-	-	-	-	33	**286**
Gross carrying amount	**759.293**	**387.156**	**345**	**2.284.890**	**1**	**12**	**195**	**241.089**	**3.672.981**
Balances with central banks	8	-	-	-	-	-	-	-	**8**
Due from credit institutions	-	-	-	94	-	-	-	-	**94**
Derivative financial instruments	-	-	-	-	-	-	-	-	**-**
Investment debt securities at AC	-	546	-	-	-	-	-	-	**546**
Other assets	-	-	-	-	-	-	-	-	**-**
Impairment allowance	**8**	**546**	**-**	**94**	**-**	**-**	**-**	**-**	**648**
Carrying amount	**759.285**	**386.610**	**345**	**2.284.796**	**1**	**12**	**195**	**241.089**	**3.672.333**

All assets shown in the tables above are classified in 12-month ECL category.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.6 Other financial assets

Balances with central banks

The Bank held balances with centrals banks of €877.322 thousand at 31 December 2019 (2018: €759.285 thousand), which are not rated.

Investment securities – equity shares

The Bank held equity shares of €248 thousand at 31 December 2019 (2018: €117 thousand) which are not rated.

Investment securities – UCIT funds

The Bank held UCIT funds of €1.987 thousand at 31 December 2019 (2018: €1.897 thousand) which are not rated.

4.2.2 Market risk

The Bank takes on exposure to market risks which is the risk of potential financial loss due to an adverse change in market variables. Changes in interest rates, foreign exchange rates, credit spreads, equity prices and other relevant factors, such as the implied volatilities of the above, can affect the Bank's income or the fair value of its financial instruments. The market risks the Bank is exposed to are managed and monitored by the Market, Counterparty and Liquidity Risk Unit (MCLRU).

The MCLRU reports to the Bank's Risk Executive, and its main responsibilities include:

- Monitoring of all key market & Interest Rate Risk in the Banking Book (IRRBB) risk indicators (VaR, sensitivities, interest rate gaps) of the Bank;
- Implementation of Stress Testing methodologies for market risk (historical and hypothetical) and IRRBB;
- Monitoring and reporting of market, counterparty and IRRBB risk limits utilisation;
- Measuring and monitoring the liquidity of the Bank; and
- Development, maintenance and expansion of risk management infrastructure.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

The market risks the Bank is exposed to are the following:

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is further split into "General" and "Specific". The former refers to changes in the fair value of positions due to the movements of benchmark interest rates, while the latter refers to changes in the fair value of position due to the movements of specific issuer yields and credit spreads.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected adverse movements arise. The Bank's Risk Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken and exposures are monitored daily.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk Committee sets limits on the level of exposures which are monitored daily.

Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk that the Bank undertakes arises mainly from equity positions.

Implied volatilities

(i) VaR summary for 2019 and 2018

The Bank's monitoring of market risk is managed and monitored using 'Value at Risk' (VaR) methodology.

VaR is a methodology used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The VaR that the Bank measures is an estimate based upon a 99% confidence level, holding period 10D. The methodology used for the calculation is Monte Carlo simulation (full repricing).

The VaR models are designed to measure market risk in a normal market environment. It is assumed that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Implied volatilities (continued)

(i) VaR summary for 2019 and 2018 (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to certain limitations. Given this, actual outcomes are monitored regularly, via back testing process, to test the validity of the assumptions and the parameters used in the VaR calculation.

Since VaR constitutes an integral part of the Bank's market risk control regime, VaR limits have been established and actual exposure is reviewed daily. However, the use of this approach does not prevent losses outside of these limits in the event of extraordinary market movements.

Average VaR by risk type:

	2019	2018
	€'000	€'000
Interest Rate Risk	**766**	690
Foreign Exchange Risk	**27**	10
Equities Risk	**14**	9
Total VaR	**768**	695

The VaR calculation is applied to all positions.

The aggregate of the interest rate, foreign exchange and equities VaR results does not constitute the Bank's total VaR due to correlations and consequent diversification effects among risk factors.

Interest rate VaR takes into account the changes to the fair valuation of all items held by the Bank that are attributable to movements in the interest rates. This includes loans and deposits (customers and interbank) as well as securities and derivatives held by the Bank. Despite the large relative size of the loan and deposit portfolio, its timing and amount matching, combined with the current level of interest rates, mean that the incremental contribution of these items to the Interest Rate VaR is not material. The largest portion of the Bank's Interest Rate VaR figures is attributable to the risk associated with interest rate sensitive securities and derivatives.

Interest rate exposure of the Bank's securities and derivatives portfolio are analysed into time bands as shown in the following tables:

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Implied volatilities (continued)

(i) VaR summary for 2019 and 2018 (continued)

	31 December 2019				
	less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Investment securities	**34.392**	**77.990**	**202.279**	**399.555**	**132.677**
Fixed coupon bonds	22.254	59.649	202.279	399.555	132.677
Variable coupon bonds	12.138	18.341	-	-	-
Derivative financial instruments[1]	**(5.691)**	**(2.174)**	**1**	**60.012**	**(60.000)**

	31 December 2018				
	less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Investment securities	**14.176**	**113.215**	**50.278**	**347.989**	**207.167**
Fixed coupon bonds	271	92.703	50.278	347.989	207.167
Variable coupon bonds	13.905	20.512	-	-	-
Derivative financial instruments[1]	**3.989**	**8**	**2**	**49.668**	**(50.000)**

[1]For linear interest rate derivatives, notional amounts are shown in the appropriate time band, aggregated across all currencies. For non-linear interest rate derivatives, delta equivalent notional amounts are shown in the appropriate time band, aggregated across all currencies.

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Implied volatilities (continued)

(ii) Sensitivity Analysis for 2019 and 2018

	31 December 2019			31 December 2018		
	Sensitivity of income statement €'000	Sensitivity of equity €'000	Total Sensitivity €'000	Sensitivity of income statement €'000	Sensitivity of equity €'000	Total Sensitivity €'000
Interest Rate: +100bps parallel shift	(8.140)	(7.460)	(15.600)	(14.126)	(8.679)	(22.805)
Equities/Funds: -10% decrease on prices	(223)	-	(223)	(201)	-	(201)
Foreign exchange: -10% depreciation of functional currency over foreign currencies	(35)	-	(35)	29	-	29

Foreign exchange risk

The following table presents the Bank's exposure to foreign currency exchange risk as at 31 December 2019 and 2018:

	31 December 2019						
	USD €'000	GBP €'000	CHF €'000	RUB €'000	Other €'000	Euro €'000	Total €'000
ASSETS							
Cash and balances with central banks	505	286	21	-	2	886.062	886.876
Due from credit institutions	370.175	11.222	1.000	38.590	5.222	1.981.428	2.407.637
Derivative financial instruments	1.759	-	-	-	7	(1.168)	598
Loans and advances to customers	341.325	245.037	14.456	-	3.637	1.492.973	2.097.428
Investment securities	344.827	-	-	-	-	540.528	885.355
Investments in subsidiaries	-	-	-	-	-	9	9
Property, plant and equipment	186	-	-	-	-	16.785	16.971
Intangible assets	-	-	-	-	-	7.973	7.973
Other assets	21	1	-	42	-	735	799
Total assets	1.058.798	256.546	15.477	38.632	8.868	4.925.325	**6.303.646**
LIABILITIES							
Due to credit institutions	30.397	1.697	79	3.039	14	147.548	182.774
Derivative financial instruments	4	28	1	-	-	16.030	16.063
Due to customers	1.820.925	194.312	26.533	34.195	24.583	3.445.164	5.545.712
Other liabilities	1.881	121	-	13	169	62.776	64.960
Total liabilities	1.853.207	196.158	26.613	37.247	24.766	3.671.518	**5.809.509**
Net on balance sheet position	(794.409)	60.388	(11.136)	1.385	(15.898)	1.253.807	**494.137**
Derivative forward foreign exchange position	794.421	(60.440)	11.133	(1.389)	15.891	(1.253.753)	(494.137)
Total foreign exchange position	**12**	**(52)**	**(3)**	**(4)**	**(7)**	**54**	**-**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Foreign exchange risk (continued)

	31 December 2018						
	USD €'000	GBP €'000	CHF €'000	RUB €'000	Other €'000	Euro €'000	Total €'000
ASSETS							
Cash and balances with central banks	444	361	12	-	2	766.460	767.279
Due from credit institutions	642.211	30.776	1.585	22.382	15.104	1.441.936	2.153.994
Derivative financial instruments	1.328	-	-	-	2	2.574	3.904
Loans and advances to customers	344.814	194.847	215.661	-	3.673	1.390.947	2.149.942
Investment securities	258.013	-	-	-	-	496.851	754.864
Investments in subsidiaries	-	-	-	-	-	4	4
Property, plant and equipment	-	-	-	-	-	6.987	6.987
Intangible assets	-	-	-	-	-	3.500	3.500
Other assets	45	37	-	33	-	1.055	1.170
Total assets	1.246.855	226.021	217.258	22.415	18.781	4.110.314	**5.841.644**
LIABILITIES							
Due to credit institutions	21.725	177	200.108	2.889	3.366	280.089	508.354
Derivative financial instruments	112	-	2	-	2	784	900
Due to customers	1.422.515	225.594	25.197	17.447	14.968	3.134.260	4.839.981
Other liabilities	1.637	102	-	12	141	45.806	47.698
Total liabilities	1.445.989	225.873	225.307	20.348	18.477	3.460.939	**5.396.933**
Net on balance sheet position	(199.134)	148	(8.049)	2.067	304	649.375	**444.711**
Derivative forward foreign exchange position	199.147	(204)	8.049	(2.068)	(297)	(649.338)	(444.711)
Total foreign exchange position	**13**	**(56)**	**-**	**(1)**	**7**	**37**	**-**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match, and as a result there may be inability to meet cash calls.

The Bank is exposed to daily calls on its available cash resources due to deposits withdrawals, maturity of secured or unsecured funding (repurchase agreements and money market takings), loan draw-downs and forfeitures of guarantees, margin calls and payments on cash-settled derivatives and risk mitigation contracts. The Bank maintains cash resources to meet all of these needs. The Risk Committee sets liquidity limits to ensure that sufficient funds are available to meet such calls.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because past performance supports that the third parties generally do not draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

<u>Liquidity Risk Management Framework</u>

The Bank’s Liquidity Risk Management Policy defines the following supervisory and control structure:

- Board Risk Committee's role is to approve all strategic liquidity risk management decisions and monitor the quantitative and qualitative aspects of liquidity risk;
- Bank’s Assets and Liabilities Committee has the mandate to form and implement the liquidity policies and guidelines in conformity with Bank's risk appetite, and to review at least monthly the overall liquidity position of the Bank;
- Bank’s Treasury is responsible for the implementation of the Bank's liquidity strategy and the daily management of the Bank’s liquidity; and
- Bank’s Market, Counterparty and Liquidity Risk Sector is responsible for measuring, monitoring and reporting the liquidity of the Bank.

The following list summarises the main reports which are produced on a periodic basis:
(a) The regulatory liquidity gap report along with the regulatory liquidity ratios;
(b) Stress test scenarios. These scenarios evaluate the impact of a number of systemic stress events on the Bank's liquidity position;
(c) Liquidity coverage ratios (LCR) estimation (Basel III new regulatory ratio).

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below presents maturity analysis of financial assets as at 31 December 2019 and 2018, based on their contractual undiscounted cash flows. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

31 December 2019

	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	**Total €'000**
Cash and balances with central banks	886.876	-	-	-	**886.876**
Due from credit institutions	1.881.397	524.748	2.310	-	**2.408.455**
Loans and advance to customers	272.273	34.074	205.920	1.892.450	**2.404.717**
Investment securities – debt securities	42.646	41.205	223.012	626.306	**933.169**
Investment securities – other equity	2.235	-	-	-	**2.235**
Derivative financial instruments	584	3	1	10	**598**
Other assets	66	-	-	111	**177**
	3.086.077	**600.030**	**431.243**	**2.518.877**	**6.636.227**

31 December 2018

	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	**Total €'000**
Cash and balances with central banks	767.279	-	-	-	**767.279**
Due from credit institutions	776.025	1.375.841	-	2.235	**2.154.101**
Loans and advance to customers	295.970	54.249	155.373	1.963.695	**2.469.287**
Investment securities – debt securities	445	81.139	80.673	655.019	**817.276**
Investment securities – other equity	2.014	-	-	-	**2.014**
Derivative financial instruments	3.736	13	74	81	**3.904**
Other assets	64	-	-	222	**286**
	1.845.533	**1.511.242**	**236.120**	**2.621.252**	**6.214.147**

Derivative assets are reported in the liquidity analysis at current market value. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

The above assets are used from a liquidity management perspective to manage liquidity risk arising from the contractual maturity analysis of financial liabilities as disclosed in the following tables.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below analyses the cash flows payable by the Bank under derivative and non-derivative financial liabilities and off-balance sheet items into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Liabilities without contractual maturities (sight and saving deposits) are presented in the "less than 1 month" time bucket.

31 December 2019

Financial liabilities	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	**Total €'000**
Non-derivative liabilities:					
- Due to credit institutions	126.385	18.409	646	37.761	**183.201**
- Due to customers	3.863.449	912.103	772.331	2.732	**5.550.615**
- Lease liabilities	115	239	1.102	6.250	**7.706**
- Other liabilities	52.823	898	3.413	97	**57.231**
	4.042.772	**931.649**	**777.492**	**46.840**	**5.798.753**
Derivative financial instruments:	6.624	3.379	310	5.750	**16.063**

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	**Total €'000**
Financial guarantee contracts and other credit related commitments	191.117	-	**191.117**
Loan commitments	377.636	-	**377.636**
Capital expenditure	3.845	1.732	**5.577**
Leases not yet commenced to which the Bank is committed	458	9.053	9.511
	573.056	**10.785**	**583.841**

31 December 2018

Financial liabilities	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	**Total €'000**
Non-derivative liabilities:					
- Due to credit institutions	412.101	17.829	36.545	43.199	**509.674**
- Due to customers	3.476.084	525.950	838.370	4.742	**4.845.146**
- Other liabilities	43.094	788	2.024	-	**45.906**
	3.931.279	**544.567**	**876.939**	**47.941**	**5.400.726**
Derivative financial instruments:	21	3	71	805	**900**

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	**Total €'000**
Financial guarantee contracts and other credit related commitments	167.346	-	**167.346**
Loan commitments	368.946	-	**368.946**
Capital expenditure	58	-	**58**
Operating lease commitments	1.617	9.842	**11.459**
	537.967	**9.842**	**547.809**

On derivative instruments line, the current market value (allocated per time bucket) is presented as a good proxy of the expected outflow.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The liabilities from derivatives are reported in the liquidity analysis using the current market values of them. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

It should be noted that the above table represents the worst case scenario since it is based on the assumption that all liabilities will be paid earlier than expected (all term deposits are withdrawn at their contractual maturity). Historical experience shows that even in a period of a systemic financial crisis the likelihood of such an event is remote.

The Bank holds a diversified portfolio of cash and high liquid assets to support payment obligations and contingent deposit withdrawals in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks in excess of Mandatory Reserve Requirement (2019: €831.384 thousand vs 2018: €719.516 thousand);
- Eligible bonds and other financial assets for collateral purposes (2019: €2.611.861 thousand vs 2018: €2.488.652 thousand); and
- Current accounts with credit institutions and interbank placings maturing within one month (2019: €105.744 thousand vs 2018: €167.123 thousand).

4.2.4 Operational risk

The Bank has adopted the Eurobank Group OpRisk Framework which defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It thus includes any unexpected or adverse impacts upon the Bank arising from any aspect of its business which is not directly attributable to any of the other risk types defined under the Framework.

The Board of Directors monitors through the Risk Committee the operational risk level and profile including the level of operational losses, their frequency and severity, and through the Audit Committee, the status of operational risk-related control issues. The Risk Management Unit sponsors any operational risk related initiative and ensures implementation of the operational risk policy.

The Bank is exposed to a variety of operational risks, such as: internal and external fraud, transaction execution errors, system failures, catastrophes, risk of losses due to damage of physical assets and risks arising from improper use of products or business practices.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.4 Operational risk (continued)

The prime responsibility for operational risk management lies with the respective heads of each business unit. To this end, every business unit:

- Identifies, evaluates and monitors its operational risks and implements risk mitigation techniques;
- Assesses control efficiency;
- Reports all relevant issues; and
- Has access to and uses the common methods and tools introduced by Operational Risk Sector, in order to facilitate identification, evaluation and monitoring of operational risk.

The OpRisk Framework is built on principles, governance & organisation, processes and infrastructure.

The Bank has in place systems and procedures for monitoring and managing operational risk events which are reported to the Risk Management Unit through the Incident Report, describing the particular event that took place, the underlying root cause(s), the associated product/service, the business process during which it occurred, any remediation activity that has been undertaken and the gross actual loss, potential loss or gain that resulted due to the event's occurrence. Near misses as well as operational risk events with a timing impact are also reported.

4.2.5 Interest Rate Benchmark reform – IBOR

Following the financial crisis, global regulators undertook a fundamental review of major interest rate benchmarks and decided to replace existing Interbank Offered Rates (IBORs) with alternative reference rates in currency jurisdictions that will be based on liquid underlying market transactions. As a result of this project (referred to as the 'IBOR reform'), there may be uncertainties relating to the long-term viability of the existing IBORs.

In this context, the Bank has established an IBOR Working Group, led by senior representatives from Units across the Bank including Corporate, Wealth Management and Global Markets, with the support of Legal, Compliance and Organization Units, in order to manage the transition to the new alternative risk free rates that will replace the current interbank offered rates, minimise, as possible, any related risks and fully comply with the regulatory requirements on the EU Benchmarks Regulation (BMR).

The main objectives of the above mentioned IBOR Working Group include:

- monitoring of the regulatory, market and industry developments on the IBOR reform and preparation of the action plans for an orderly transition to the new benchmark rates,
- assessment and evaluation of implications to the business activity including proper integration of the new methodologies to calculate the alternative benchmark rates in the Bank's core systems, amendment of clearing agreements with clearing entities/brokers and contracts with financial institutions-market counterparties based on the new alternative benchmark rates, incorporation of fallback provisions as may be required or recommended by the regulatory authorities of financial markets international associations, in existing and

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.5 Interest Rate Benchmark reform – IBOR (continued)

newly originated floating rate financial instruments indexed to benchmark rates that will be replaced as part of the IBOR reform and appropriate modification of customers' contracts,

- development of a communication strategy to all stakeholders regarding changes deriving from the IBOR Reform, and
- regular reporting to the Assets Liabilities Committee and as may be required to the BRC in order to review and assess developments, recommend or approve actions and/or strategies relevant to the IBOR reform.

The Bank has exposure to a number of IBOR-linked financial instruments such as derivatives, debt securities, lending and deposit contracts. Since these benchmark rates will be replaced, as part of the market driven IBOR reform, there may be uncertainty regarding the methods and timing of transition to the new rates, as well as the resulting modifications of the IBOR linked financial instruments in respect of the timing or amount of the new benchmark rate-based cash flows. Accordingly, the above uncertainty may have consequences on the financial instruments' accounting treatment mainly relating to hedge accounting over the transition period, hedge designations when existing uncertainties are no longer present and the accounting treatment to be applied to any changes to the terms of the contracts.

As at 31 December 2019, the Bank is exposed to Euribor and EONIA within its hedge accounting relationships that mature beyond the end of 2021, when the IBOR reform is expected to be completed. Regarding Euribor rate, as at 31 December 2019 there has been no official statement from the ECB Working Group on Euro Risk Free Rates and the European Money Markets Institute, which is the administrator of Euribor, with respect to Euribor termination date. On the contrary, Euribor from July 2019 is considered BMR compliant as a critical benchmark. Consequently, Euribor may continue to exist as a benchmark rate for the foreseeable future and related fair value hedges are not expected to be directly affected by the IBOR reform.

Currently, the market expects that upon the IBOR's transition, the applicable interest rates (i.e. new IBORs plus spread) will be set at such levels so as to minimize, as possible, value transfer for all parties resulting in the respective cash flows being broadly equivalent for all stakeholders, before and after the IBOR change. Considering the market view and the Bank's expectation that the hedged items will contractually remain as floating rated and the identified hedged risk components will not change, the existing uncertainties relating to the IBOR replacement during the transition period do not impact the Bank's hedge accounting as at 31 December 2019.

The Bank will continue to monitor any market developments and regulatory guidance relating to the IBOR Reform and adjust its implementation plans accordingly in order to achieve mitigation of the risks resulting from the transition.

4 Financial risk management and fair value (continued)

4.3 Financial assets pledged as collateral

The Bank may sell or re-pledge any securities obtained through reverse repurchase agreements and has an obligation to return the securities. The counterparty retains substantially all the risks and rewards of ownership and therefore the securities are not recognised by the Bank. As at 31 December 2019, the Bank had obtained through reverse repurchase agreements securities of face value of €2.280.622 thousand and fair value €2.281.872 thousand (2018: €1.967.662 thousand and €1.974.673 thousand), out of which reverse repurchase agreements with face value €427.725 thousand and fair value €427.841 thousand (2018: €143.000 thousand and €147.196 thousand) have been lent out through securities lending agreements.

As at 31 December 2019, the cash value of the assets transferred by the Bank through repurchase agreements amounted to €30 million (2018: €30 million).

4.4 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, processes and policies from previous years.

The Bank has complied with all externally imposed capital requirements throughout the current and prior year.

The Bank's Capital Adequacy position is presented in the following table:

	2019	2018
	€'000	€'000
Ordinary shareholders' equity	**494.137**	444.711
Less: other regulatory adjustments	**(8.540)**	(3.996)
Total Tier 1 capital	**485.597**	440.715
Total regulatory capital	**485.597**	440.715
Risk Weighted Assets	**1.936.394**	1.800.442

	2019	2018
	%	%
Ratios:		
Core Tier 1	**25,1**	24,5
Tier 1	**25,1**	24,5
Capital Adequacy Ratio	**25,1**	24,5

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

As at 31 December 2019, Tier 1 capital represents share capital, share premium, retained earnings, other reserves less intangible assets and additional valuation adjustments.

Based on Council Regulation No 1024/2013, the ECB conducts annually a Supervisory Review and Evaluation Process ('SREP') in order to define the prudential requirements of the institutions under its supervision. The key purpose of the SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks the institution may pose to the financial system. According to the 2019 SREP decision, for the year ended 31 December 2019, the Bank was required to meet on an individual basis a Total SREP Capital Requirement (TSCR) of at least 10,25% (consisting of the minimum requirement of 8% for Pillar 1 risks and a Pillar 2 requirement of 2,25%) and an Overall Capital Requirement of at least 13% (consisting of the TSCR plus the Capital Conservation Buffer of 2,5% and the Other Systemically Important Institutions Buffer of 0,25%).

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the European Union and the Central Bank of Cyprus.

Leverage

The regulatory framework has introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and is a binding requirement at the beginning of 2018. The Bank submits to the regulatory authorities the leverage ratio on quarterly basis and monitors the level and the factors that affect the ratio.

The level of the leverage ratio with reference date 31 December 2019 amounts to 9,4% (2018: 10,0%), according to the transitional definition of Tier 1 capital, which is significantly over the 3% minimum threshold applied by the competent authorities.

4.5 Fair value of financial assets and liabilities

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using another valuation technique that is appropriate in the circumstances, and maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

The values derived using these techniques are affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rate used.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

The Bank's financial instruments carried at fair value or at amortised cost for which fair value is disclosed are categorised into the three fair value hierarchy levels based on whether the inputs to their fair values are observable or non-observable, as follows:

a) Level 1 – Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that the Bank can access at the measurement date. A market is considered active when quoted prices must be readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. Level 1 financial instruments include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds that have regularly and frequently published quotes.

b) Level 2 - Financial instruments measured using valuation techniques where inputs, other than level 1 quoted prices, that are observable either directly or indirectly, such as: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments include over-the-counter (OTC) derivatives, equity instruments and less liquid debt instruments.

c) Level 3 - Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equities or equities traded in markets that are not considered active, certain OTC derivatives and loans and advances to customers.

Financial instruments carried at fair value

The fair value hierarchy categorisation of the financial assets and liabilities carried at fair value as at 31 December 2019 and 2018 is presented in the following tables:

	At 31 December 2019			
	Level 1 €'000	**Level 2 €'000**	**Level 3 €000**	**Total €'000**
Financial assets measured at fair value:				
Due from credit institutions mandatorily at FVTPL	-	2.310	-	**2.310**
Derivatives for which hedge accounting is not applied/held for trading	-	598	-	**598**
Loans and advances to customers mandatorily at FVTPL	-	-	8.731	**8.731**
Investment securities at FVOCI	508.175	29.009	-	**537.184**
Investment securities at FVTPL	2.223	-	12	**2.235**
Total financial assets measured at fair value	**510.398**	**31.917**	**8.743**	**551.058**
Financial liabilities measured at fair value:				
Derivative financial instruments designated as fair value hedges	-	5.932	-	**5.932**
Derivatives for which hedge accounting is not applied/held for trading	-	10.131	-	**10.131**
Total financial liabilities measured at fair value	**-**	**16.063**	**-**	**16.063**

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments carried at fair value (continued)

	At 31 December 2018			
	Level 1 €'000	Level 2 €'000	Level 3 €000	Total €'000
Financial assets measured at fair value:				
Due from credit institutions mandatorily at FVTPL	-	2.235	-	**2.235**
Derivatives for which hedge accounting is not applied/held for trading	-	3.904	-	**3.904**
Loans and advances to customers mandatorily at FVTPL	-	-	11.597	**11.597**
Investment securities at FVOCI	443.315	32.964	-	**476.279**
Investment securities at FVTPL	2.002	-	12	**2.014**
Total financial assets measured at fair value	**445.317**	**39.103**	**11.609**	**496.029**
Financial liabilities measured at fair value:				
Derivative financial instruments designated as fair value hedges	-	466	-	**466**
Derivatives for which hedge accounting is not applied/held for trading	-	434	-	**434**
Total financial liabilities measured at fair value	**-**	**900**	**-**	**900**

<u>Reconciliation of Level 3 fair value measurements</u>

	31 December 2019		
	Loans and advances to customers mandatorily at FVTPL €'000	Investment securities at FVTPL €'000	Total €'000
Balance at 1 January	11.597	12	**11.609**
Repayments	(3.445)	-	**(3.445)**
Total gain for the year included in profit or loss	579	-	**579**
Balance at 31 December	**8.731**	**12**	**8.743**

	31 December 2018		
	Loans and advances to customers mandatorily at FVTPL €'000	Investment securities at FVTPL €'000	Total €'000
Balance at 1 January	-	-	**-**
Transfers into Level 3	-	12	**12**
Transition to IFRS 9	12.082	-	**12.082**
Repayments	(755)	-	**(755)**
Total gain for the year included in profit or loss	270	-	**270**
Balance at 31 December	**11.597**	**12**	**11.609**

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Valuation processes and techniques

The Bank's processes and procedures governing the fair valuations are established by the Group Market Counterparty Risk Sector in line with the Group's accounting policies. The Bank uses widely recognised valuation models for determining the fair value of common financial instruments that are not quoted in an active market, such as interest and cross currency swaps, that use only observable market data and require little management estimation and judgment. Specifically, observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them.

All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values' estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values also reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty, where appropriate.

Valuation controls applied by the Bank may include verification of observable pricing, re-performance of model valuations, review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs). CVA calculation uses probabilities of default (PDs) based on observable market data as credit default swaps (CDS) spreads, where appropriate, or based on internal rating models. The Bank applies similar methodology for the calculation of debit-value-adjustments (DVAs), when applicable. Where valuation techniques are based on internal rating models and the relevant CVA is significant to the entire fair value measurement, such derivative instruments are categorised as Level 3 in the fair value hierarchy.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Valuation processes and techniques (continued)

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield, quoted market prices in non active markets for identical or similar financial instruments, or using discounted cash flows method.

Unquoted equity instruments at FVTPL are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, and (ii) net assets' valuations, adjusted where considered necessary.

Loans and advances to customers which contractual cash flows do not represent solely payments of principal and interest (SPPI failures) are measured mandatorily at fair value through profit or loss. Quoted market prices are not available as there are no active markets where these instruments are traded. Their fair values are estimated on an individual loan basis by discounting the future expected cash flows over the time period they are expected to be recovered, using an appropriate discount rate. Expected cash flows which incorporate credit risk represent significant unobservable input in the valuation and as such the entire fair value measurement is categorised as Level 3 in the fair value hierarchy. A reasonably possible increase/decrease in the discount rates by +5%/-5% would increase/decrease the total fair value measurement by €16 thousand.

Financial instruments not carried at fair value

The fair value hierarchy categorisation of the Bank’s financial assets and liabilities not carried at fair value on the balance sheet is presented in the following tables:

	At 31 December 2019				
	Level 1 €’000	**Level 2 €’000**	**Level 3 €000**	**Fair Value €000**	**Carrying amount €’000**
Financial assets not carried at fair value:					
Balances with central banks	-	877.322	-	**877.322**	**877.322**
Due from credit institutions	-	2.405.327	-	**2.405.327**	**2.405.327**
Loans and advances to customers	-	-	2.127.588	**2.127.588**	**2.088.697**
Investment securities at AC	379.413	-	-	**379.413**	**345.936**
Other assets	-	177	-	**177**	**177**
	379.413	**3.282.826**	**2.127.588**	**5.789.827**	**5.717.459**
Financial liabilities not carried at fair value:					
Due to credit institutions	-	182.774	**-**	**182.774**	**182.774**
Due to customers	-	5.545.712	**-**	**5.545.712**	**5.545.712**
Other liabilities	-	62.535	**-**	**62.535**	**62.535**
	-	**5.791.021**	**-**	**5.791.021**	**5.791.021**

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments not carried at fair value (continued)

	At 31 December 2018				
	Level 1 €'000	Level 2 €'000	Level 3 €000	Fair Value €000	Carrying amount €'000
Financial assets not carried at fair value:					
Balances with central banks	-	759.285	-	**759.285**	**759.285**
Due from credit institutions	-	2.151.759	-	**2.151.759**	**2.151.759**
Loans and advances to customers	-	-	2.138.345	**2.138.345**	**2.138.345**
Investment securities at AC	298.528	-	-	**298.528**	**276.571**
Other assets	-	286	-	**286**	**286**
	298.528	**2.911.330**	**2.138.345**	**5.348.203**	**5.326.246**
Financial liabilities not carried at fair value:					
Due to credit institutions	-	508.354	**-**	**508.354**	**508.354**
Due to customers	-	4.839.981	**-**	**4.839.981**	**4.839.981**
Other liabilities	-	45.906	**-**	**45.906**	**45.906**
	-	**5.394.241**	**-**	**5.394.241**	**5.394.241**

The Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected. During the years ended 31 December 2019 and 2018, the Bank did not make any transfers into and out of the fair value hierarchy levels.

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value are in line with those used to calculate the fair values for financial instruments carried at fair value. Particularly:

a) Loans and advances to customers: for loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. Loans are grouped into homogenous assets with similar characteristics, as monitored by Management, such as product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. In estimating future cash flows, the Bank makes assumptions on expected prepayments, product spreads and timing of collateral realisation. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate;

b) Investment securities carried at amortised cost: the fair values of financial investments are determined using prices quoted in an active market when these are available. In other cases, fair values are determined using quoted market prices for securities with similar credit risk, maturity and yield, quoted market prices in non active markets for identical or similar financial instruments, or by using the discounted cash flows method.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

For other financial instruments which are short term or re-price at frequent intervals (cash and balances with central banks, due from credit institutions, due to central banks, due to credit institutions and due to customers), the carrying amounts represent reasonable approximations of fair values.

4.6 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

4.7 Offsetting of financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

a) are offset in the Bank's balance sheet according to IAS 32 'Financial Instruments: Presentation' criteria; or
b) are subject to enforceable master netting arrangements or similar agreements that cover similar financial instruments, irrespective of whether they are offset in balance sheet.

Regarding the former, financial assets and financial liabilities are offset and the net amount is 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 realise the asset and settle the liability simultaneously (the offset criteria), as also set out in the Bank's accounting policy 2.2.3.

Regarding the latter, the International Swaps and Derivatives Association ('ISDA') and similar master netting arrangements do not meet the criteria for offsetting in the balance sheet, as they create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties may not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Similar agreements to ISDA include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, repos and reverse repos agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not subject to this disclosure unless they are offset in the balance sheet.

The following tables present financial assets and financial liabilities that meet the criteria for offsetting and thus are reported on a net basis in the balance sheet, as well as amounts that are subject to enforceable master netting arrangements and similar agreements for which the offset criteria mentioned above are not satisfied. The latter amounts, which mainly relate to derivatives, repurchase agreements and reverse repurchase agreements, are not set off in the balance sheet. In respect of these transactions, the Bank receives and provides collateral in the form of marketable securities and cash that are included in the tables below under columns 'financial instruments' and 'cash collateral' at their fair value.

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

Financial assets and liabilities are disclosed in the below tables at their recognised amounts which are at amortised cost, except for derivative financial instruments which are measured at fair value and placements with credit institutions mandatorily at FVTPL.

The amount set off in the balance sheet reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019 and 31 December 2018:

	31 December 2019					
				Amounts subject to master netting and similar arrangements not offset in the balance sheet		
	Gross amounts before offsetting in the balance sheet (a) €000	Gross amounts offset in the balance sheet (b) €000	Net amounts after offsetting in the balance sheet (c) = (a) – (b) €000	Financial instruments including non-cash collaterals (d) €000	Cash collateral received/ pledged (e) €000	Net amount (c) – (d) – (e) €000
Assets						
Placements with credit institutions	19.578	-	19.578	-	19.578	-
Settlement balances with credit institutions	5.529	-	5.529	-	5.529	-
Loans and advances to customers	45.149	45.149	-	-	-	-
Reverse repurchase agreements receivables	2.281.872	-	2.281.872	2.281.872	-	-
Derivative financial instruments	577	-	577	-	577	-
Total assets subject to offsetting, master netting and similar arrangement	**2.352.705**	**45.149**	**2.307.556**	**2.281.872**	**25.684**	**-**
Liabilities						
Deposits from credit institutions	14.172	-	14.172	-	1.072	13.100
Settlement balances with credit institutions	35.478	-	35.478	-	8.697	26.781
Due to customers	45.149	45.149	-	-	-	-
Derivative financial instruments	15.915	-	15.915	-	15.915	-
Total liabilities subject to offsetting, master netting and similar arrangement	**110.714**	**45.149**	**65.565**	**-**	**25.684**	**39.881**

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

	31 December 2018					
				Amounts subject to master netting and similar arrangements not offset in the balance sheet		
	Gross amounts before offsetting in the balance sheet (a) €000	Gross amounts offset in the balance sheet (b) €000	Net amounts after offsetting in the balance sheet (c) = (a) – (b) €000	Financial instruments including non-cash collaterals (d) €000	Cash collateral received/ pledged (e) €000	Net amount (c) – (d) – (e) €000
Assets						
Placements with credit institutions	6.969	-	6.969	-	6.969	-
Settlement balances with credit institutions	13.807	-	13.807	-	13.807	-
Loans and advances to customers	47.529	47.529	-	-	-	-
Reverse repurchase agreements receivables	1.982.035	-	1.982.035	1.982.035	-	-
Derivative financial instruments	3.717	-	3.717	-	3.717	-
Total assets subject to offsetting, master netting and similar arrangement	**2.054.057**	**47.529**	**2.006.528**	**1.982.035**	**24.493**	**-**
Liabilities						
Deposits from credit institutions	7.614	-	7.614	-	4.531	3.083
Settlement balances with credit institutions	46.818	-	46.818	-	19.304	27.514
Due to customers	47.529	47.529	-	-	-	-
Derivative financial instruments	658	-	658	-	658	-
Total liabilities subject to offsetting, master netting and similar arrangement	**102.619**	**47.529**	**55.090**	**-**	**24.493**	**30.597**

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

The tables below show a reconciliation of the net amounts of financial assets and financial liabilities presented in the balance sheet:

31 December 2019

	Net amounts €'000	Line item in the balance sheet	Carrying amount in the balance sheet €'000	Financial assets/liabilities not in scope of offsetting disclosures €'000	*Note*
Types of financial assets:					
Placements with credit institutions	19.578	Due from credit institutions	93.284	73.706	*15*
Settlement balances with credit institutions	5.529	Due from credit institutions	32.481	26.952	*15*
Loans and advances to customers	-	Loans and advances to customers	2.097.428	2.097.428	*17*
Reverse repurchase agreements receivables	2.281.872	Due from credit institutions	2.281.872	-	*15*
Derivative financial instruments	577	Derivative financial instruments	598	21	*16*
Types of financial liabilities:					
Deposits from credit institutions	14.172	Due to credit institutions	105.068	90.896	*23*
Settlement balances with credit institutions	35.478	Due to credit institutions	77.706	42.228	*23*
Due to customers	-	Due to customers	5.545.712	5.545.712	*24*
Derivative financial instruments	15.915	Derivative financial instruments	16.063	148	*16*

31 December 2018

	Net amounts €'000	Line item in the balance sheet	Carrying amount in the balance sheet €'000	Financial assets/liabilities not in scope of offsetting disclosures €'000	*Note*
Types of financial assets:					
Placements with credit institutions	6.969	Due from credit institutions	141.412	134.443	*15*
Settlement balances with credit institutions	13.807	Due from credit institutions	30.547	16.740	*15*
Loans and advances to customers	-	Loans and advances to customers	2.149.942	2.149.942	*17*
Reverse repurchase agreements receivables	1.982.035	Due from credit institutions	1.982.035	-	*15*
Derivative financial instruments	3.717	Derivative financial instruments	3.904	187	*16*
Types of financial liabilities:					
Deposits from credit institutions	7.614	Due to credit institutions	416.683	409.069	*23*
Settlement balances with credit institutions	46.818	Due to credit institutions	91.671	44.853	*23*
Due to customers	-	Due to customers	4.839.981	4.839.981	*24*
Derivative financial instruments	658	Derivative financial instruments	900	242	*16*

5 Net interest income

	2019 €'000	2018 €'000
Interest income		
Interest income calculated using the effective interest method		
Interest from amounts due from credit institutions - *measured at amortised cost*	**18.584**	20.133
Interest from loans and advances to customers - *measured at amortised cost*	**69.741**	63.392
Interest from investment securities		
- measured at amortised cost	**9.050**	7.687
- measured at FVOCI	**14.144**	12.336
Total interest income calculated using the effective interest method	**111.519**	103.548
Other interest income		
Interest from derivative financial instruments - *measured at FVTPL*	**10.122**	9.366
Interest from loans and advances to customers - *measured at FVTPL*	**365**	394
Interest from investment securities - *measured at FVTPL*	**3**	-
Total other interest income	**10.490**	9.760
Interest expense		
Interest expense calculated using the effective interest method		
Interest on due to credit institutions - *measured at amortised cost*	**(6.950)**	(8.050)
Interest on due to customers - *measured at amortised cost*	**(35.810)**	(34.903)
Interest on lease liabilities	**(319)**	-
Other interest expense	**(12)**	-
Total interest expense calculated using the effective interest method	**(43.091)**	(42.953)
Other interest expense		
Interest on derivative financial instruments - *measured at FVTPL*	**(685)**	(664)
Total other interest expense	**(685)**	(664)
Net interest income	**78.233**	69.691

6 Net banking fee and commission income

	2019 €'000	2018 €'000
Banking fee and commission income		
Bank transfer commissions	**8.676**	8.071
Other fees and commissions	**23.608**	19.173
Total banking fee and commission income	**32.284**	27.244
Banking fee and commission expense		
Fees on lien agreements (note 31)	**(1.391)**	(2.090)
Other fees and commissions	**(4.821)**	(4.777)
Total banking fee and commission expense	**(6.212)**	(6.867)
Net banking fee and commission income	**26.072**	20.377

6 Net banking fee and commission income (continued)

The following table includes net banking fees and commission income from contracts with customers in the scope of IFRS 15, disaggregated by major type of services:

	2019 €'000	2018 €'000
Lending related activities	**3.355**	2.088
Wealth management	**3.185**	2.179
Network and other transactional activities	**19.532**	16.110
	26.072	20.377

The Bank recognises revenue when it transfers control over a service to a customer.

The Bank earns fee income from a range of services it provides to its clients. The major categories are the below:

- Banking services including account management, granting of credit facilities, foreign currency transactions, credit card and other service fees.
  Revenues from account and servicing fees is recognised over time as the services are provided (i.e. charged on a monthly basis to the customer's account).
  Revenues from transaction-based fees (e.g. foreign currency transactions, overdraft facilities, etc.) are recognised at the point in time when the transactions takes place.

- Execution of client transactions.
  Revenue from transaction-based fees is recognised at the point in time when the transaction takes place.

- Wealth management services, including safekeeping of assets and asset management services of €1.116 thousand (2018: €789 thousand).
  Fees are calculated based on a fixed percentage of the value of assets managed / held and deducted from the customer's account balance on a monthly basis. The respective revenue is recognised over time as the services are provided.

7 Net trading income

	2019 €'000	2018 €'000
Net (loss)/income from the ineffective portion of derivatives in qualifying hedging relationships	**(114)**	54
Net income on derivative financial instruments (no hedge accounting)	**220**	68
	106	122

8 Net gains from other financial instruments

	2019 €'000	2018 €'000
Net gains on disposal of investment securities at FVOCI:		
– Debt securities, Cyprus government bonds	**1.360**	2.009
Net gains/(losses) on revaluation of investment securities mandatorily at FVTPL:		
– Equity shares	**131**	(42)
– UCIT funds	**73**	(1)
Net gains of loans and advances to customers mandatorily at FVTPL	**214**	-
Net gains from investment securities	**1.778**	1.966

9 Other income

	2019 €'000	2018 €'000
Profit on disposal of investments in subsidiaries (note 19)	**-**	2.176
Other income	**2**	128
	2	2.304

10 Staff costs

	2019 €'000	2018 €'000
Salaries and other related costs	**15.314**	12.228
Social insurance and other costs	**3.197**	2.510
Directors' fees and remuneration (note 31)	**1.055**	945
Retirement benefit costs – defined contributions plan	**1.228**	1.005
	20.794	16.688

The average number of employees of the Bank during the year 2019 was 390 (2018: 356).

The Defined Contribution Plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

The Bank contributes 10% of the gross monthly salary of the members of staff who previously were under the Defined Benefit pension scheme which was resolved in 2013 and a range between 5%-10% for new members of staff who were not under the above scheme.

11 Other operating expenses

	2019 €'000	2018 €'000
Amortisation of intangible assets (note 21)	**1.445**	1.019
Depreciation of property, plant and equipment (note 20)	**2.921**	1.424
Loss on disposal/write down of intangible assets and property, plant and equipment	**-**	6
Expenses relating to short term leases	**351**	-
Operating lease rentals	**-**	1.427
Repairs and maintenance	**2.551**	1.459
Auditors' remuneration for statutory audit	**119**	77
Auditors' remuneration for other assurance engagements	**64**	24
Auditors' remuneration for non-assurance engagements	**35**	3
Professional fees	**643**	1.119
Advertising and promotion	**1.199**	1.353
Other administrative expenses	**6.251**	4.150
	15.579	12.061

12 Other impairment losses and provisions

	2019 €'000	2018 €'000
Provisions on operational risk events	**58**	962
Reversal of impairment losses on investment securities at FVOCI	**(284)**	(381)
Impairment/(reversal of impairment losses) on investment securities at AC	**7**	(202)
Reversal of impairment losses on due from credit institutions	**(50)**	(39)
	(269)	340

13 Income tax expense

	2019 €'000	2018 €'000
Current tax:		
- Corporation tax	**7.360**	6.880
- Withholding tax	**660**	459
Total current tax	**8.020**	7.339
Deferred tax (credit)/charge	**125**	(85)
Total income tax expense	**8.145**	7.254

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

	2019 €'000	2018 €'000
Profit before tax and government levies	**58.987**	55.055
Tax calculated at the applicable corporation tax rate of 12,5%	**7.373**	6.882
Tax effect of expenses not deductible for tax purposes	**1.197**	646
Tax effect of allowances and income not subject to tax	**(1.210)**	(648)
Withholding tax	**660**	459
Deferred tax charge/(credit)	**125**	(85)
Income tax expense	**8.145**	7.254

13 Income tax expense (continued)

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

Tax losses may be carried forward for five years.

Tax losses of group companies in Cyprus, other than companies affected by article 13(8)(d)(i) of the Income Tax Law, can be offset against taxable profits of other group companies in Cyprus and any tax losses not utilised can be carried forward and offset against the same entity's taxable profits of the next five years. Article 13(8)(d)(i) of the Income Tax Law provides that in the case where the disposal of shares held by one company in another company member of the same group is taxed as a trading transaction then the two companies are not considered group companies for loss relief purposes.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

In certain cases, dividends received from abroad may be subject to special defence contribution at the rate of 17%.

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

There is no income tax effect relating to components of other comprehensive income (2018: €nil).

The Management believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Other developments on taxation issues:

Loan Restructuring Exemption – An exemption from Capital gains tax (CGT)/Income Tax/Corporate Tax/Land Registry Fees/Stamp Duties is available on all transfers of immovable property (IP) or shares of companies owning IP as a result of loan restructuring arrangements concluded between Credit Institutions and borrowers. Following an amendment to the Laws this exception has been extended and will be available until 31 December 2019. With an amendment to the Tax Laws, published in the Official Gazette on 17 July 2018, the definition of restructuring has been broadened as to include transfers/disposals of property to third persons, non-related with the borrower, following the consent of the Credit Institution. These restructuring arrangements however, will be restricted to facilities which were rendered non-performing on or prior to 31 December 2015. The restriction however was included in the general definition of restructurings and subsequently as from 17 July 2018 and until a new amendment to the provisions of the relevant Laws is effected, the tax exemptions will be applicable only to restructuring arrangements the facilities of which were rendered non-performing on or prior to 31 December 2015. With an additional amendment to the Laws the definition of Creditor has been broadened so as to include companies which acquire credit facilities pursuant to the Sale of Loans Law. Through this amendment the tax exemptions for loan restructurings will also be available for loan restructurings effected by these companies. Another amendment to the Law provisions with effect from 15 March 2019 broadens the term borrower so as to include 3rd degree related persons to the borrower. Through this amendment debt to asset restructurings may be now concluded with immovable property which is not mortgaged however is owned by the related to the borrower persons.

13 Income tax expense (continued)

Deferred tax:

Deferred tax is calculated on all temporary differences under the liability method at the rate in effect at the time the reversal is expected to take place.

The movement in deferred tax (assets) and liabilities (non-current) during the year is as follows:

	Differences between wear & tear and depreciation €'000	**Total €'000**
Balance at 1 January 2018	57	**57**
Charged to income statement	(85)	**(85)**
Balance at 1 January 2019 (note 22)	(28)	**(28)**
Charged to income statement	125	**125**
Balance at 31 December 2019 (note 25)	**97**	**97**

14 Cash and balances with central banks

	2019 €'000	2018 €'000
Cash in hand	**9.554**	7.994
Balances with central banks	**877.322**	759.285
Total	**886.876**	767.279
of which:		
Mandatory deposits with central banks	**55.492**	47.763

As at 31 December 2019, the impairment allowance for expected credit losses on balances with central banks within the scope of IFRS 9 impairment requirements amounted to €8 thousand (2018: €8 thousand).

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.

15 Due from credit institutions

	2019 €'000	2018 €'000
Due from credit institutions at amortised cost:		
Reverse repurchase agreements receivables (1)	**2.281.872**	1.982.035
Placements with credit institutions (2)	**90.974**	139.177
Settlement balances with credit institutions	**32.481**	30.547
	2.405.327	2.151.759
Due from credit institutions mandatorily at FVTPL:		
Placements with credit institutions (2)	**2.310**	2.235
Total due from credit institutions	**2.407.637**	2.153.994
Maturity analysis:		
Current:		
- on demand up to 7 days	**246.246**	145.514
- between 7 days and three months	**2.159.081**	2.006.245
	2.405.327	2.151.759
Non-current	**2.310**	2.235
	2.407.637	2.153.994

(1) Amounts due from credit institutions include reverse repurchase agreements of €2.281.872 thousand (2018: €1.982.035 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2019, approximately €2.182.204 thousand (2018: €1.873.518 thousand), are fully secured by bonds which are ECB eligible and rated as investment grade.

(2) Placements with credit institutions bear interest which is based on the interbank rate of the relevant term and currency.

As at 31 December 2019, the impairment allowance for expected credit losses on amounts due from credit institutions at amortised cost within the scope of IFRS 9 impairment requirements amounted to €44 thousand (2018: €94 thousand).

16 Derivative financial instruments

The Bank utilises the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase or sell foreign and domestic currency.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities, except in the cases where the counterparty is a Eurobank group entity.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In consideration for the assumption of foreign exchange or interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks at the reporting date. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held by product type and hedge relationship along with their notional amounts are set out in the following table:

16 Derivative financial instruments (continued)

	31 December 2019			
	Assets		Liabilities	
	Contract/ notional amount € '000	Fair values € '000	Contract/ notional amount € '000	Fair values € '000
Derivatives for which hedge accounting is not applied/held for trading				
- Currency options	1.655	8	1.655	8
- Currency forward and spot deals	15.125	52	13.136	25
- Interest rate swaps	5.341	23	4.670	314
- Currency swaps	894.980	500	903.484	9.784
- Cap and floor swaps	17.629	15	-	-
		598		**10.131**
Derivatives designated as fair value hedges				
- Interest rate swaps	-	-	60.000	5.932
		-		**5.932**
Total derivatives assets/liabilities		**598**		**16.063**

	31 December 2018			
	Assets		Liabilities	
	Contract/ notional amount € '000	Fair values € '000	Contract/ notional amount € '000	Fair values € '000
Derivatives for which hedge accounting is not applied/held for trading				
- Currency options	2.975	16	2.975	16
- Currency forward and spot deals	8.583	48	8.156	32
- Interest rate swaps	25.682	129	27.682	386
- Currency swaps	211.778	3.711	207.788	-
		3.904		**434**
Derivatives designated as fair value hedges				
- Interest rate swaps	-	-	50.000	466
		-		**466**
Total derivatives assets/liabilities		**3.904**		**900**

	Fair Values			
	2019		2018	
	Assets €'000	**Liabilities €'000**	Assets €'000	Liabilities €'000
Maturity analysis:				
Current	**587**	**10.313**	3.823	95
Non-current	**11**	**5.750**	81	805
	598	**16.063**	3.904	900

16 Derivative financial instruments (continued)

The Bank uses certain derivatives and other financial instruments, designated in a qualifying hedged relationship, to reduce its exposure to market risks. The hedging practices applied by the Bank, as well as the relevant accounting policy, are disclosed in note 2.2.2. In particular:

<u>Fair value hedges</u>

The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities held using interest rate swaps. In 2019, the Bank recognised a gain of €5.351 thousand (2018: €520 thousand) from changes in the carrying amount of the hedged item attributable to the hedged risk, used as the basis of recognising hedge ineffectiveness and €5.466 thousand loss (2018: €466 thousand) from changes in the carrying amount (i.e. fair value) of the hedged instrument. The amount of hedge ineffectiveness recognised for 2019 in income statement (under net trading income) was €114 thousand loss (2018: €54 thousand gain). The IRSs used for hedging has a forward start date in 2022 earning EUR_EONIA + 113 basis points and paying a fixed rate of 2,375% and EURI16MD + 147 basis points and paying a fixed rate of 2,75%.

The Bank establishes a hedge ratio by aligning the par amount of the fixed-rate note and the notional amount of the interest rate swap designated as a hedging instrument. Under the Bank policy, in order to conclude that a hedging relationship is effective, all of the following criteria should be met:

- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 0,8.
- The slope of the regression line is within a 0,8–1,25 range.
- The confidence level of the slope is at least 95%.

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the notes.

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net interest income.

16 Derivative financial instruments (continued)

Fair value hedges (continued)

At 31 December 2019 and 2018, the amounts relating to items designated as fair value hedged items were as follows:

	31 December 2019		
	Carrying amount	Accumulated amount of FV hedge adjustments on the hedged item	Change in value as the basis for recognising hedge ineffectiveness
	€'000	€'000	€'000
Investment securities - Debt securities at AC	**66.060**	**5.872**	**5.351**

	31 December 2018		
	Carrying amount	Accumulated amount of FV hedge adjustments on the hedged item	Change in value as the basis for recognising hedge ineffectiveness
	€'000	€'000	€'000
Investment securities - Debt securities at AC	50.659	520	520

At 31 December 2019 and 2018, the maturity profile of the nominal amount of the financial instruments designated by the Bank in fair value hedge relationships and hedged items is presented in the tables below:

	31 December 2019	
	Maturity over 5 years	Total
	€'000	€'000
Interest rate swap - Investment securities at AC	60.000	**60.000**

	31 December 2018	
	Maturity over 5 years	Total
	€'000	€'000
Interest rate swap - Investment securities at AC	50.000	**50.000**

In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are monitored and have been classified for accounting purposes along with those held for trading.

The Bank's exposure in derivative financial assets, as categorised by counterparty's geographical region and industry sector, is presented in note 4.2.1.5.

Information on the fair value measurement and offsetting of derivatives is provided in notes 4.5 and 4.7, respectively.

17 Loans and advances to customers

	31 December 2019 €'000	31 December 2018 €'000
Loans and advances to customers at amortised cost:		
- Gross carrying amount	**2.136.224**	2.193.771
- Impairment allowance	**(47.527)**	(55.426)
Carrying amount	**2.088.697**	2.138.345
Loans and advances to customers mandatorily at FVTPL:		
Carrying amount	**8.731**	11.597
Total	**2.097.428**	2.149.942

	31 December 2019 €'000	31 December 2018 €'000
Maturity analysis:		
Current	**349.265**	340.536
Non-current	**1.748.163**	1.809.406
	2.097.428	2.149.942

17 Loans and advances to customers (continued)

The table below presents the carrying amount of loans and advances to customers per business unit and per stage as at 31 December 2019 and 2018:

	31 December 2019				31 December 2018			
	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total amount €000	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total amount €000
At amortised cost								
Retail Lending:								
- Mortgage								
Gross carrying amount	11.093	-	-	11.093	10.615	-	-	10.615
Impairment allowance	-	-	-	-	-	-	-	-
Carrying amount	11.093	-	-	11.093	10.615	-	-	10.615
- Consumer								
Gross carrying amount	20.752	1	9	20.762	15.469	7	26	15.502
Impairment allowance	(119)	-	(9)	(128)	(91)	-	(26)	(117)
Carrying amount	20.633	1	-	20.634	15.378	7	-	15.385
- Affluent banking								
Gross carrying amount	20.879	260	371	21.510	8.970	219	-	9.189
Impairment allowance	(22)	(1)	(16)	(39)	(1)	(1)	-	(2)
Carrying amount	20.857	259	355	21.471	8.969	218	-	9.187
- Credit cards								
Gross carrying amount	709	10	7	726	564	2	17	583
Impairment allowance	(2)	-	(5)	(7)	(2)	-	(7)	(9)
Carrying amount	707	10	2	719	562	2	10	574
Wholesale Lending:								
- Large corporate loans								
Gross carrying amount	979.661	94.578	48.704	1.122.943	1.091.519	73.413	53.664	1.218.596
Impairment allowance	(1.557)	(1.111)	(29.172)	(31.840)	(758)	(1.136)	(32.199)	(34.093)
Carrying amount	978.104	93.467	19.532	1.091.103	1.090.761	72.277	21.465	1.184.503
- Wealth management loans								
Gross carrying amount	257.929	17.869	20.485	296.283	241.124	21.089	35.630	297.843
Impairment allowance	(180)	(299)	(13.521)	(14.000)	(91)	(135)	(20.923)	(21.149)
Carrying amount	257.749	17.570	6.964	282.283	241.033	20.954	14.707	276.694
- International business banking loans								
Gross carrying amount	472.217	472	1.276	473.965	473.853	34	5	473.892
Impairment allowance	(15)	-	(1)	(16)	-	-	(5)	(5)
Carrying amount	472.202	472	1.275	473.949	473.853	34	-	473.887
- Shipping loans								
Gross carrying amount	187.192	-	1.750	188.942	167.545	6	-	167.551
Impairment allowance	(44)	-	(1.453)	(1.497)	(51)	-	-	(51)
Carrying amount	187.148	-	297	187.445	167.494	6	-	167.500
Total at amortised cost								
Gross carrying amount	1.950.432	113.190	72.602	2.136.224	2.009.659	94.770	89.342	2.193.771
Impairment allowance	(1.939)	(1.411)	(44.177)	(47.527)	(994)	(1.272)	(53.160)	(55.426)
Carrying amount	**1.948.493**	**111.779**	**28.425**	**2.088.697**	**2.008.665**	**93.498**	**36.182**	**2.138.345**
At FVTPL								
Carrying amount				**8.731**				**11.597**
Total	**1.948.493**	**111.779**	**28.425**	**2.097.428**	**2.008.665**	**93.498**	**36.182**	**2.149.942**

In 2019 loans of €10 thousand that were written off in prior years were recovered. In 2018 no loans that were written off in prior years were recovered.

Interest income on impaired loans and advances to customers accrued during the year amounted to €1.373 thousand (2018: €1.270 thousand).

18 Investment securities

	31 December 2019 €'000	31 December 2018 €'000
Investment securities at FVOCI	**537.184**	476.279
Investment securities at amortised cost	**345.936**	276.571
Investment securities mandatorily at FVTPL	**2.235**	2.014
	885.355	754.864
Maturity analysis:		
Current	**289.674**	145.804
Non-current	**595.681**	609.060
	885.355	754.864

The tables below discloses the gross carrying amount, impairment allowances and carrying amount per stage of investment securities as at 31 December 2019 and 2018:

	31 December 2019		31 December 2018	
	12-month ECL €'000	**Total €'000**	12-month ECL €'000	Total €'000
Debt securities at amortised cost:				
- Gross carrying amount	**346.489**	**346.489**	277.117	277.117
- Impairment allowance	**(553)**	**(553)**	(546)	(546)
Carrying amount	**345.936**	**345.936**	276.571	276.571
Debt securities at FVOCI:				
Carrying amount	**537.184**	**537.184**	476.279	476.279
Total of debt securities	**883.120**	**883.120**	752.850	752.850
Other investment securities at FVTPL:				
Equity shares		**248**		117
UCIT funds		**1.987**		1.897
Carrying amount		**2.235**		2.014
Total of investment securities		**885.355**		754.864

18 Investment securities (continued)

The investment securities per category are analysed as follows:

	31 December 2019			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities at FVTPL €'000	Total €'000
Debt securities:				
- Cyprus government bonds	91.457	345.936	-	**437.393**
- Other government bonds	116.440	-	-	**116.440**
- Multilateral development banks	138.247	-	-	**138.247**
- Banks and financial institutions	89.211	-	-	**89.211**
- Other issuers	101.829	-	-	**101.829**
Total debt securities	**537.184**	**345.936**	-	**883.120**
Other investment securities:				
Equity shares	**-**	**-**	248	**248**
UCIT funds	**-**	**-**	1.987	**1.987**
Total other investment securities	**-**	**-**	**2.235**	**2.235**
Total of investment securities	**537.184**	**345.936**	**2.235**	**885.355**

	31 December 2018			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities at FVTPL €'000	Total €'000
Debt securities:				
- Cyprus government bonds	101.168	276.571	-	**377.739**
- Other government bonds	8.871	-	-	**8.871**
- Multilateral development banks	123.077	-	-	**123.077**
- Banks and financial institutions	125.185	-	-	**125.185**
- Other issuers	117.978	-	-	**117.978**
Total debt securities	**476.279**	**276.571**	-	**752.850**
Other investment securities:				
Equity shares	**-**	**-**	117	117
UCIT funds	**-**	**-**	1.897	1.897
Total other investment securities	**-**	**-**	**2.014**	**2.014**
Total of investment securities	**476.279**	**276.571**	**2.014**	**754.864**

All investment securities, with the exception of UCIT funds and equity shares with a fair value of €12 thousand (2018: €12 thousand), are listed.

18 Investment securities (continued)

The movement of investment securities in 2019 and 2018 is as follows:

	31 December 2019			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities at FVTPL €'000	Total €'000
Gross carrying amount at 1 January	**476.279**	**277.117**	**2.014**	**755.410**
Additions	242.593	66.575	-	**309.168**
Disposals and redemptions	(194.093)	-	-	**(194.093)**
Maturities	-	(1.236)	-	**(1.236)**
Amortisation of discounts/premiums and interest	1.877	(1.318)	-	**559**
Net gains from changes in fair values	5.244	-	204	**5.448**
Changes in fair value due to hedging	-	5.351	-	**5.351**
Foreign exchange	5.284	-	17	**5.301**
Gross carrying amount at 31 December	**537.184**	**346.489**	**2.235**	**885.908**
Impairment allowance	-	(553)	-	**(553)**
Carrying amount at 31 December	**537.184**	**345.936**	**2.235**	**885.355**

	31 December 2018			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities at FVTPL €'000	Total €'000
Gross carrying amount at 1 January	**341.241**	**193.529**	**2.018**	**536.788**
Additions	261.571	91.015	-	**352.586**
Disposals and redemptions	(130.694)	-	-	**(130.694)**
Maturities	-	(7.580)	-	**(7.580)**
Amortisation of discounts/premiums and interest	400	(367)	-	**33**
Net losses from changes in fair values	(7.282)	-	(43)	**(7.325)**
Changes in fair value due to hedging	-	520	-	**520**
Foreign exchange	11.043	-	39	**11.082**
Gross carrying amount at 31 December	**476.279**	**277.117**	**2.014**	**755.410**
Impairment allowance	-	(546)	-	**(546)**
Carrying amount at 31 December	**476.279**	**276.571**	**2.014**	**754.864**

All investment securities at FVOCI and investment securities at amortised cost are classified in 12-month ECL category.

Notes to the financial statements

18 Investment securities (continued)

Fair value reserve: Revaluation of investment securities

The fair value reserve comprises:
- the cumulative net change in fair value of equity securities measured at FVOCI; and
- the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

The movement of the reserve is as follows:

	2019	2018
	€'000	€'000
Balance at 1 January	**9.998**	17.661
Net losses/(gains) from changes in fair value	**6.603**	(5.273)
Net gains from investment securities transfer to Income Statement due to disposal	**(1.360)**	(2.009)
Impairment allowance of investment securities at FVOCI	**(284)**	(381)
Balance at 31 December	**14.957**	9.998

19 Investments in subsidiaries

The subsidiary companies and their principal activity are described below:

Name	*Participation*	*Principal activities*	**2019 €'000**	2018 €'000
Foramonio Ltd	100%	Investing activities	**1**	1
Lenevino Holdings Ltd	100%	Investing activities	**1**	1
Neviko Ventures Ltd	100%	Investing activities	**1**	1
Rano Investments Ltd	100%	Investing activities	**1**	1
Amvanero Ltd	100%	Investing activities	**1**	-
Ragisena Ltd	100%	Investing activities	**1**	-
Revasono Holdings Ltd	100%	Investing activities	**1**	-
Volki Investments Ltd	100%	Investing activities	**1**	-
Zivar Investments Ltd	100%	Investing activities	**1**	-
			9	4

All companies are registered and operate in Cyprus and have been set up to acquire properties from customers in settlement of their obligations with the Bank.

During 2019 Amvanero Ltd, Ragisena Ltd, Revasono Holdings Ltd, Volki Investments Ltd and Zivar Investments Ltd were set up with a share capital of €1 thousand each.

During 2018 Neviko Ventures Ltd and Rano Investments Ltd were set up with a share capital of €1 thousand each and Densho Investments Ltd and Mesal Holdings Ltd were disposed with a profit of €2.159 thousand and €17 thousand, respectively.

Profits arising on the disposal of subsidiaries are included in “Other income” in the Income Statement.

20 Property, plant and equipment

The movement of property, plant and equipment is as follows:

31 December 2019	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	Right-of-use assets[1] €'000	Total €'000
Cost					
Balance at 1 January	11.125	76	5.701	-	**16.902**
Recognition of right-of-use assets on initial application of IFRS16	-	-	-	7.742	**7.742**
Adjusted balance at 1 January	11.125	76	5.701	7.742	**24.644**
Additions	3.084	30	866	778	**4.758**
Disposals and write offs	-	(35)	(43)	(11)	**(89)**
Changes due to remeasurements of lease terms	-	-	-	418	**418**
Effect of changes in foreign exchange rates	-	-	-	2	**2**
Balance at 31 December	**14.209**	**71**	**6.524**	**8.929**	**29.733**
Accumulated depreciation					
Balance at 1 January	6.038	75	3.802	-	**9.915**
Charge for the year	920	2	460	1.539	**2.921**
Disposals and write offs	-	(35)	(37)	(2)	**(74)**
Balance at 31 December	**6.958**	**42**	**4.225**	**1.537**	**12.762**
Net book value at 31 December	**7.251**	**29**	**2.299**	**7.392**	**16.971**

31 December 2018	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	Total €'000
Cost				
Balance at 1 January	10.279	76	5.007	**15.362**
Additions	848	-	749	**1.597**
Disposals and write offs	(2)	-	(55)	**(57)**
Balance at 31 December	**11.125**	**76**	**5.701**	**16.902**
Accumulated depreciation				
Balance at 1 January	5.080	74	3.388	**8.542**
Charge for the year	958	1	465	**1.424**
Disposals and write offs	-	-	(51)	**(51)**
Balance at 31 December	**6.038**	**75**	**3.802**	**9.915**
Net book value at 31 December	**5.087**	**1**	**1.899**	**6.987**

[1] As at 31 December 2019, the right-of-use assets amounting to €7.392 thousand refer to leased office and branch premises of €7.073 thousand and motor vehicles of €319 thousand.

20 Property, plant and equipment (continued)

Leasehold improvements relate to premises occupied by the Bank for its own activities.

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2019 €'000	2018 €'000
Carrying amount	**6**	6
Loss on sale of property, plant and equipment	**-**	(6)
Proceeds from sale of property, plant and equipment as per cash flow statement	**6**	-

21 Intangible assets

Intangible assests comprise of computer software.

The movement of computer software is as follows:

	2019 €'000	2018 €'000
Cost		
Balance at 1 January	**8.970**	8.120
Additions	**5.918**	850
Disposals and write offs	**-**	-
Balance at 31 December	**14.888**	**8.970**
Accumulated depreciation		
Balance at 1 January	**5.470**	4.451
Charge for the year	**1.445**	1.019
Disposals and write offs	**-**	-
Balance at 31 December	**6.915**	**5.470**
Net book value at 31 December	**7.973**	**3.500**

22 Other assets

	2019 €'000	2018 €'000
Prepaid expenses	**622**	856
Deferred tax asset (note 13)	**-**	28
Other assets	**177**	286
	799	1.170

Maturity analysis:	2019 €'000	2018 €'000
Current	**589**	115
Non-current	**210**	1.055
	799	1.170

None of these financial assets are either past due or credit-impaired.

23 Due to credit institutions

	2019 €'000	2018 €'000
Deposits due to credit institutions	**105.068**	416.683
Settlement balances with credit institutions	**77.706**	91.671
	182.774	508.354
Maturity analysis:		
Current:		
- on demand up to 7 days	**77.731**	91.696
- 7 days up to 3 months	**67.046**	337.951
- 3 months to 1 year	**668**	36.344
	145.445	465.991
Non-current:		
- after 5 years	**37.329**	42.363
	37.329	42.363
	182.774	508.354

Amounts due to credit institutions are categorised as financial liabilities measured at amortised cost.

24 Due to customers

	2019 €'000	2018 €'000
Current accounts	**3.024.095**	2.605.489
Notice accounts	**38.654**	22.024
Term deposits	**2.452.924**	2.182.407
Repurchase agreements	**30.039**	30.061
	5.545.712	4.839.981
Maturity analysis:		
- up to 1 month	**3.862.774**	3.475.304
- between 1 month and three months	**909.403**	524.797
- between three months and one year	**770.803**	835.139
- between one year and five years	**2.732**	4.741
- more than five years	**-**	-
	5.545.712	4.839.981

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2019 amounted to €605.626 thousand (2018: €847.041 thousand).

Amounts due to customers are categorised as financial liabilities measured at amortised cost.

Special levy on total deposits is imposed by legislation to all Banks and Credit Institutions operating in Cyprus.

24 Due to customers (continued)

The special levy is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly instalments. The government levy on customer deposits for the year ended 31 December 2019 amounted to €6.375 thousand (2018: €5.343 thousand). Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the special levy up to the level of the total annual special levy charge. The 2019 government levy is net of €1.371 thousand (2018: €1.324 thousand) relating to the contribution to the Single Resolution Fund.

25 Other liabilities

	2019 €'000	2018 €'000
Current income tax liability	**1.322**	1.398
Impairment allowance for expected credit losses on financial guarantees and credit related commitments and loan commitments (note 4.2.1.3)	**1.006**	394
Deferred tax liability (note 13)	**97**	-
Lease liabilities[1]	**7.483**	-
Balances under settlement relating to bank cheques	**28.604**	24.092
Other liabilities and accruals[2]	**26.448**	21.814
	64.960	47.698

	2019 €'000	2018 €'000
Maturity analysis:		
Current	**58.836**	47.698
Non-current	**6.124**	-
	64.960	47.698

[1]Following the adoption of IFRS 16 as of January 2019 (note 2.3.1).
[2]As at 31 December 2019 and 2018, other liabilities and accruals mainly consist of payables relating with suppliers and creditors, staff related and trading balances. As at 31 December 2019, they include commissions and consultancy fees of €129 thousand (2018: €214 thousand) payable to Eurobank Ergasias S.A. (note 31 (i), included in "Other liabilities").

26 Share capital

The par value of the Bank's shares is €10 thousand per share. All shares are fully paid.

The movement of share capital and share premium is as follows:

	No. of shares	**Ordinary shares €'000**	**Share premium €'000**	**Total €'000**
Authorised				
At 31 December 2019 & 2018	**1.500**	**15.000**	**-**	**15.000**
Issued				
At 31 December 2019 & 2018	**1.201**	**12.010**	**245.384**	**257.394**

26 Share capital (continued)

There were no changes in the Bank's share capital during the years ended 31 December 2019 and 2018.

All the shares have the same rights.

There are no restrictions on the transfer of ordinary shares and no restrictions on the exercise of voting rights other than the restrictions imposed by the Business of Credit Institutions Law of Cyprus which provides that the approval of the Central Bank of Cyprus is required before the acquisition of shares in the Company, exceeding certain thresholds.

There are no restrictions on the payment of dividends other than those imposed by the Business of Credit Institutions Law of Cyprus under certain circumstances.

Dividends

Net profit for the year ended 31 December 2019 is retained. The Board of Directors will consider during 2020 the payment of a dividend.

27 Leases – where the Bank is the lessee

The Bank leases a number of branch and office premises as well as motor vehicles.

The majority of the Bank's property leases are under agreements with average term 3 years, with options to extend or terminate the lease according to the terms of each contract, while motor vehicles generally have lease terms of up to 5 years. Extension options held by the Bank are included in the lease term when it is reasonably certain that they will be exercised based on its assessment. Depending on the terms of each lease contract, lease payments are adjusted in line with the Consumer Price Index, as published by the Cyprus Statistical Service, plus an agreed fixed percentage.

Before the adoption of IFRS 16, these leases were classified as operating leases under IAS 17.

Information about leases for which the Bank is a lessee is presented in note 20 as "right-of-use assets" the nature of which is as below:

	2019
	€'000
Buildings	**7.073**
Motor vehicles	**319**
	7.392

27 Leases – where the Bank is the lessee (continued)

Right-of-use assets

	2019		
	Property €'000	Motor Vehicles €'000	**Total €'000**
Balance at 1 January 2019	7.631	111	**7.742**
Additions	468	310	**778**
Terminations of lease periods	-	(9)	**(9)**
Changes due to reassessments of lease terms	418	-	**418**
Depreciation charge for the year	(1.446)	(93)	**(1.539)**
Effect of changes in foreign exchange rates	2	-	**2**
Balance at 31 December 2019	7.073	319	**7.392**

Lease liabilities

See note 4.2.3 for maturity analysis of lease liabilities as at 31 December 2019.

As at 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 €'000
Not later than one year	**1.617**
Later than one year and not later than five years	**2.995**
Later than five years	**6.847**
Total undiscounted lease liabilities at 31 December 2018	**11.459**

Amounts recognised in profit or loss

	2019 €'000
2019 - Leases under IFRS 16	
Interest on lease liabilities	**319**
Expenses relating to short-term leases	**304**

	2018 €'000
2018 - Operating leases under IAS 17	
Lease expense	**1.379**

Amounts recognised in the cash flow statement

	2019 €'000
Total cash outflow for leases	**1.155**

Leases not yet commenced to which the Bank is committed

On 28 December 2016 the Bank entered into a lease agreement for the rental of a building that was not available for use during 2019 and as at 31 December 2019.

28 Contingencies and commitments

The Bank presents the credit related commitments it has undertaken within the context of its lending related activities into the following three categories: a) financial guarantee contracts, which refer to guarantees and standby letters of credit that carry the same credit risk as loans (credit substitutes), b) commitments to extend credit, which comprise firm commitments that are irrevocable over the life of the facility or revocable only in response to a material adverse effect and c) other credit related commitments, which refer to documentary and commercial letters and other guarantees.

	2019	2018
	€'000	€'000
Contingent liabilities:		
Financial guarantee contracts	**184.154**	161.220
Credit related commitments	**6.963**	6.126
	191.117	167.346
Commitments:		
Loan commitments	**377.636**	368.946

Impairment allowance for expected credit losses on credit related commitments and contingent liabilities is presented within "Other liabilities" (note 25).

Capital commitments

As at 31 December 2019 commitments for contracted capital expenditures for the Bank amounted to €5.577 thousand (2018: €58 thousand) for leasehold improvements and the acquisition of computer software.

Legal proceedings

As at 31 December 2019 and 2018 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

29 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts, including fiduciary assets, with fair value amounting to approximately €2.135.232 thousand (2018: €2.211.106 thousand).

30 Cash and cash equivalents on cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of three months or less:

	2019	2018
	€'000	€'000
Cash in hand (note 14)	**9.554**	7.994
Balances with credit institutions (note 15)	**2.405.327**	2.151.759
Balances with central banks, excluding mandatory deposits (note 14)	**821.830**	711.522
	3.236.711	2.871.275

Changes in liabilities arising from financing activities

During the year ended 31 December 2019, changes in the Bank's liabilities arising from financing activities of €1.155 are attributable to payments of lease liabilities.

31 Related party transactions and balances

The immediate controlling party of the Bank is ERB New Europe Holding B.V. registered in the Netherlands. Eurobank Ergasias S.A., who is the ultimate parent company, produces consolidated financial statements available for public use, owns 100% of the shares of ERB New Europe Holding B.V.

In May 2019, following the increase of the share capital of Eurobank Ergasias S.A.'s in the context of the merger with absorption of Grivalia Properties REIC, the percentage of the Eurobank Ergasias S.A.'s ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 2,38% to 1,40%. The HFSF is still considered to have significant influence over Eurobank Ergasias S.A. pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) Eurobank Ergasias S.A. has entered into with the HFSF. In particular, among others rights according to Law 3864/2010, as in force, and the RFA, HFSF exercises its voting rights in Eurobank Ergasias S.A.'s General Assembly only for decisions concerning the amendment of Eurobank Ergasias S.A.'s Articles of Association, including the increase or decrease of Eurobank Ergasias S.A.'s capital or the granting of a corresponding authorisation to Eurobank Ergasias S.A.'s Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of Eurobank Ergasias S.A., the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 4548/2018. Further to this, the RFA signed on 4 December 2015 replacing the previous one, signed on 26 August 2014, regulates, among others, (a) Eurobank Ergasias S.A.'s corporate governance, (b) the Restructuring Plan1 and its monitoring, (c) the monitoring of the implementation of Eurobank Ergasias S.A.'s Non-Performing Loans (NPLs) management framework and of Eurobank Ergasias S.A.'s performance on NPLs resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of Eurobank Ergasias S.A.'s actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for Eurobank Ergasias S.A.'s Group Risk and Capital Strategy and for Eurobank Ergasias S.A.'s Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in Eurobank Ergasias S.A.'s Board.

31 Related party transactions and balances (continued)

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These mainly include loans, deposits derivatives, repurchase agreements, lien agreements and guarantees. In addition, as part of its normal course of business in investment banking activities, the Bank at times may hold positions in debt and equity instruments of related parties.

Following the completion of the merger of Eurobank Ergasias S.A. with Grivalia Properties REIC, Fairfax group has increased its percentage holding in the Eurobank Ergasias S.A.'s share capital, which as at 31 December 2019 stands at 31,27%.

Hive down

On 20 March 2020 Eurobank Ergasias S.A. announced that, following the decision of the Extraordinary General Meeting of its shareholders held on 31 January 2020 and after obtaining the necessary approvals by the competent Authorities, its demerger through sector's hive down and establishment of a new company-credit institution ("Demerger") under the corporate name "Eurobank S.A." ("Eurobank") was completed. Furthermore, on 23 March 2020 the amendment of its Articles of Association was announced, according to which its corporate name of Eurobank Ergasias S.A. was amended to "Eurobank Ergasias Services and Holdings S.A." ("Eurobank Holdings").

Following the above, Eurobank substitutes Eurobank Holdings, by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector (as at 30 June 2019) and formed up to Demerger's completion on 20 March 2020.

Eurobank Holdings, Eurobank's sole shareholder, ceases to be a credit institution and maintains activities and assets and liabilities that are not related to main banking activities, but are mainly related to the strategic planning of the administration of non-performing loans and the provision of services to the Group companies and third parties. Eurobank Holdings continues to be listed on the Athens Stock Exchange with its shares trading under its new name starting from 24 March 2020.

31 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances:

The outstanding balances and transactions with related parties are as follows:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2019 €'000	2018 €'000	**2019 €'000**	2018 €'000	**2019 €'000**	2018 €'000
Balances:						
Due from credit institutions (1)	**2.306.556**	1.954.529	**452**	210	**-**	-
Loans and advances to customers (2)	**-**	-	**25.358**	323.287	**455**	477
Derivative financial instruments – Assets	**577**	3.717	**-**	-	**-**	-
Other assets	**-**	-	**-**	-	**-**	-
Due to credit institutions	**97.554**	428.753	**-**	-	**-**	-
Derivative financial instruments – Liabilities	**15.915**	658	**-**	-	**-**	-
Due to customers (3)	**-**	-	**26.919**	18.633	**4.883**	2.934
Other liabilities	**165**	301	**349**	441	**-**	-
Transactions:						
Interest income (4)	**23.920**	24.510	**1.976**	7.608	**8**	13
Interest expense	**3.580**	5.697	**12**	-	**23**	18
Banking fee and commission income	**476**	622	**48**	9	**-**	-
Banking fee and commission expense – fees on lien agreement	**1.391**	2.090	**-**	-	**-**	1
Banking fee and commission expense – other	**543**	493	**508**	387	**-**	-
Net trading income	**106**	118	**-**	-	**-**	-
Staff costs excluding retirement benefit costs	**-**	-	-	-	**1.746**	1.375
Defined contribution plan	**-**	-	-	-	**160**	128
Directors' remuneration	**-**	-	-	-	**997**	894
Other operating expenses	**700**	357	**24**	24	**-**	-

Key management personnel include directors and key management personnel of the Bank, their close family members and entities controlled or jointly controlled by them.

(1) Amounts due from credit institutions include reverse repurchase agreements with Eurobank Ergasias S.A. of €2.281.872 thousand (2018: €1.933.756 thousand) (note 15).

As at 31 December 2019, the fair value adjustment for amounts due from credit institutions (i.e. Eurobank Ergasias S.A.) measured at FVTPL amounts to €310 thousand (31 December 2018: €235 thousand).

31 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances (continued):

(2) Loans and advances to customers with Eurobank Ergasias S.A. Group include loans and advances to the Bank's direct subsidiaries of €17.123 thousand (2018: €12.378 thousand).

Total collaterals in relation to loans and advances to key management personnel amounted to €333 thousand (2018: €434 thousand).

(3) Due to customers with Eurobank Ergasias S.A. Group include balances with the Bank's direct subsidiaries of €27 thousand (2018: €27 thousand).

(4) Interest income from Eurobank Ergasias S.A. Group includes income from the Bank's direct subsidiaries of €133 thousand (2018: €65 thousand).

(ii) Lien agreements

As of 31 December 2019 and 2018, the Bank has in place lien agreements from Eurobank Ergasias S.A., which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2019 **€'000**	2018 €'000
Loans and advances to customers	**40.368**	352.706

Based on the Lien agreements, in case of default of any of the issuers of the underlying assets, the Bank can set off the receivable amounts with the equivalent funds placed by Eurobank Ergasias S.A.

On 28 September 2012 the Bank and Eurobank Ergasias S.A. signed a memorandum of understanding whereby the latter assumes the credit losses arising from the credit facility extended by the Bank to ERB New Europe Funding II B.V., a group subsidiary, for any amount exceeding the amount of €15 million on an annual basis, and establish a pledge, in favour of the Bank over a deposit held in its name with the Bank. The loans and advances to customers subject to these arrangements amounted to €35.206 thousand as at 31 December 2017. The memorandum was terminated in June 2018. From termination to 31 December 2018 these loans and advances to customers were secured under the lien agreements mentioned above and as at 31 December 2018 they amounted to €36.335 thousand.

32 Events after the balance sheet date

With the recent and rapid development of COVID-19 outbreak the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the Republic of Cyprus, have implemented restrictions on travelling as well as strict quarantine measures.

32 Events after the balance sheet date (continued)

Developments around the COVID-19 in 2020 so far suggest that, in the first half of 2020, global economic growth is expected to be negatively affected by the spread of the disease and the resulting disruption of the economic activity. The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome.

In response to the COVID-19 outbreak, on 12 March 2020, the ECB announced a number of temporary capital and operational relief measures which will allow banks to use capital and liquidity buffers and cover Pillar 2 requirements with other than CET 1 instruments. On the same date the EBA decided to postpone the EU-wide stress test exercise to 2021 to allow banks to focus on and ensure continuity of their core operations, including support for their customers.

On 25 March 2020, the EBA and ESMA provided clarity to banks on the application of the prudential framework in light of COVID-19 measures and clarified that in case of debt moratoria, there is no automatic classification in default, forborne, or IFRS9 status. Nevertheless, banks should perform adequate risk measurement and individual assessments of obligors' likeliness to pay when possible.

In Cyprus, on 15 March 2020, the Council of Ministers in an extraordinary meeting, announced that it considers that Cyprus is entering a state of emergency considering the uncertain situation as it unfolds daily, the growing spread of COVID-19 outbreak and the World Health Organisation's data on the situation. To this end, certain measures were taken with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

New entry regulations were announced with regard to protecting the population from a further spread of the disease which tightened the entry of individuals to the Republic of Cyprus. Additionally, it was decided that a considerable number of private businesses operating in various sectors of the economy would remain closed from 16 March 2020 and for a period of four weeks. Furthermore, lockdown measures were announced effective from 24 March until 13 April 2020 which were subsequently extended to 30 April 2020. Subject to the development of the COVID-19 outbreak, these measures could be extended even further for a longer period, and additional and/or stricter measures could be announced and implemented by the local authorities.

The Cyprus House of Parliament approved on 27 March 2020, by urgent procedure, ten bills concerning the measures aiming to contain the pandemic of COVID-19 and to support the economy and the society and on 29 March 2020, it passed the bill allowing for a suspension of loan payments for a period of nine months, or end of December 2020. The bills were followed by a Decree issued by the Ministry of Finance on 30 March 2020 instructing all licensed banks in Cyprus to suspend the collection of loan installments – including interest – until 31 December 2020.

In order to ensure consistent application, on 2 April 2020 the EBA issued guidelines on the moratoria applied before 30 June 2020 and clarified which moratoria do not trigger forbearance classification.

32 Events after the balance sheet date (continued)

In order to ensure uninterrupted operations of the Bank and customers service as well as to limit exposure and spreading of the COVID-19, the Bank's Management invoked the business continuity plan of the Bank and set up a Crisis Management Committee. Some of the immediate actions taken include the following:

- Introduction of specific health & safety policies to protect staff and customers;
- Disposable material and disinfectants have been placed in all Bank's premises to be used by staff and clients;
- Significant number of members of staff was deployed to work from home through remote access or webmail services;
- Critical departments were split in different locations to ensure continuity of service and reduction of contamination;
- Business trips and staff training (other than e-learning) were canceled;
- Staff belonging to vulnerable groups were asked to remain at their homes;
- Communication with all outsourced vendors especially for critical services was effected so as to evaluate their own business continuity plans;
- All meetings with customers would take place either over the telephone or through video conference facilities;
- Customers were urged to use the Bank's electronic channels where applicable; and,
- Measures applied at Banking Centers included restriction of number of customers being serviced at the same time, fitting of glass panels between the cash tellers and customers etc.

In addition, the Bank's Management having considered the unique circumstances and the risk exposures, has concluded on a preliminary basis, that the main potential impact in the Bank's operations, profitability and financial position could arise from the below:

- Reduction in net interest income as a result of the contraction of the economy and the decrease in Libors
- Reduction in transactional commission income
- Potential deterioration in asset quality
- Increase in risk weighted assets
- Changes in the fair value of financial assets and financial liabilities

Considering the potential effect of the above factors, and by reference to the results of a number of stress test scenarios performed by the Bank as part of COVID-19 preliminary impact assessment, the Bank is expected to remain profitable with ample liquidity and compliant with its capital adequacy and other regulatory / prudential requirements.

Management will continue to monitor the situation closely and will assess the need for additional actions to be taken to remediate the consequences of the outbreak and measures announced.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.