EUROBANK CYPRUS LTD

Report and Financial Statements

For the year ended 31 December 2020

Eurobank Cyprus Ltd

Report and financial statements for the year ended 31 December 2020

Contents

Eurobank Cyprus Ltd

Board of Directors and Other Officers

Board of Directors

O. Ellingham	Chairman, Non Executive
N. Karamouzis	Vice Chairman, Non Executive
M. Louis	Executive
D. Shacallis	Executive
R. Kyprianou	Non Executive
L. Demosthenous	Non Executive
A. Soteriou	Non Executive
S. Ioannou	Non Executive
T. Phidia	Non Executive
C. Kitti	Non Executive
A. Pittas	Non Executive (appointed on 29 May 2020)
M. Colakides	Non Executive (resigned on 9 July 2020)

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 2020.

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:

	2020	2019
Key Financial Results	**€'000**	€'000
Net interest income	**75.206**	78.233
Operating income	**108.919**	106.191
Operating expenses including impairment allowance	**56.476**	47.204
Profit before tax and government levies	**52.443**	58.987
Profit for the year	**40.142**	44.467
Balance Sheet Highlights	**€'000**	€'000
Customer deposits	**5.484.129**	5.545.712
Loans and advances to customers	**2.199.611**	2.097.428
Total assets	**6.821.221**	6.303.646
Equity	**526.702**	494.137
Financial Ratios[1]	**%**	%
Cost to income	**36,9**	34,3
Return on equity	**7,9**	9,5
Loans to deposits	**40,1**	37,8
Cost of risk	**0,7**	0,5
NPE provisions coverage	**67,0**	65,5
Credit-impaired loans/gross loans	**3,2**	3,4
Capital adequacy ratio (all CET 1)	**26,2**	25,1
Leverage ratio	**8,0**	9,4

[1] Definitions of the selected financial ratios and the source of the financial data are provided in the Appendix.

Management Report (continued)

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

The financial performance of the Bank for 2020 was undoubtedly impacted by the Covid-19 pandemic. Despite the adversities, the Bank was able to respond to the new conditions, adjusting its modus operandi in line with the announced measures by the Government, having its customers and human capital as top priorities.

The Bank's profit for the year amounted to €40,1 million reporting a 10% decrease in comparison to 2019. This is mainly due to the drop in net interest income, increased expected credit losses ("ECL") as a result of Covid-19 and increased regulatory costs.

Net interest income was negatively affected by 4% vs 2019 due to the drop in Libors and loan yields even though partially offset by the decrease in the cost of deposits.

Fees and commission income for the year reported a marginal decrease of 2% or €0,5 million vs 2019. This was in line with the Bank's expectations and directly related with Covid-19's effect on the fee income transactional activity of customers. During the year the Bank realised €8,2 million gains from the sale of financial instruments.

The increase in operating expenses was mainly due to increased headcount, increased repairs and maintenance in relation to the Bank's information technology systems, increased regulatory costs and costs associated with Covid-19.

As a result of the above, cost/income ratio increased from 34,3% of 2019 to 36,9% and return on equity decreased to ~8%.

ECLs on loans and advances reported a ~40% increase in comparison to the previous year. This was mainly due to the impact of Covid-19 and the forward looking economic outlook. As a result of the increase in ECLs, the NPE provisions coverage was maintained at a satisfactory level of 67%.

Importantly, the quality of the Bank's loan portfolio remained strong in 2020 as depicted by the decrease in the credit-impaired loans/gross loans ratio to 3,2% from 3,4% in 2019. The Bank is continuously monitoring the quality of the loan book especially in 2021 with the general legislative loan installments moratorium ending.

Customer deposits remained at similar levels of 2019 with customers utilising to some extent their liquidity reserves during lockdown and slow down of their operations. Nevertheless, the Bank's liquidity continues to remain strong.

Throughout 2020, the Bank was actively engaged in lending activities across all its business lines to support its customers and the real economy. As such, net loans and advances reported an expansion of 5% or €102 million which under the circumstances, is considered satisfactory.

The Bank continues to implement a selective credit expansion policy as demonstrated by the low ratio of credit-impaired loans.

Management Report (continued)

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

The healthy profitability has contributed to the further improvement in the Bank's capital adequacy and CET1 ratios from 25,1% in 2019 to 26,2% at the end of 2020.

Due to the good quality of the Bank's loan portfolio, the ample liquidity and strong capital, the Bank will continue to support its clients.

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

Business outlook and risks

In a year shaped by the Covid-19 pandemic, the global economy contracted as governments imposed restrictions to control the spread of the virus. Global GDP shrank by 3,4% after a growth of 2,9% of 2019.

The Covid-19 crisis in Cyprus resulted in a seasonally adjusted GDP contraction of 4,5% in 4Q 2020. In accordance with official date released by CySTAT, this translates into a GDP contraction rate of 5,0% for 2020 vs the Government's estimate of 5,5% and the EU Commission's estimate of 6,2%.

The most affected sectors of the economy were real estate, hospitality, transportation, wholesale and retail trade, automobiles, leisure and entertainment. During the same period, GDP contraction in the Eurozone reached 4,8% while for the full year the EU commission expects the figure to reach -7,8%.

The Cyprus House of Parliament passed a bill allowing for a suspension of loan payments for a period of nine months until the end of December 2020. The bill 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 ('loan moratorium'). This applied to elligble borrowers with no arrears exceeding 30 days as at the end of February 2020 (Note 4.2.1.3 to the financial statements).

A second loan moratorium was launched in January 2021 for customers impacted by the second lockdown with payment deferrals until the end of June 2021 with the proviso that the total period of the loan moratorium, including the period of 2020 not exceeding the period of nine months.

Tourist arrivals recorded a steep decline in 2020, reaching an annual figure of 0,632 million which represents a decline of 84,1% compared to 2019. Inflation returned to a negative trajectory recording a 1,1% decline in 2020, while unemployment during the year increased by 8,2% to 7,6% on a seasonally adjusted basis.

Management Report (continued)

Business outlook and risks (continued)

Government budget for the year recorded a decline of 6,6% in total revenue to €7.758,8 million compared to an increase of 16,7% in total expenditure to €8.972,5 million. Combined with the contribution of other Government bodies, the budget recorded an overall deficit of €1.058,9 million or 5,0% of GDP, while the primary budget recorded a deficit of €564,1 million or 2,7% of GDP.

Government Debt/GDP increased to 121,7% for the first nine months of 2020 compared to 95,2% in 2019 as a result of increased debt issuance by the Government for prudency reasons as the progression of the crisis was unpredictable. In January 2020, the Government proceeded with two benchmark issues totaling €1.750 million in 10 and 20 year bonds. Following the escalation of the crisis the Government proceeded with additional long term EMTN issuances in April and in July totaling €2.750 million. Additionally, the Government tapped the local market for a 12 month T-bill for an amount of €1.250 million.

On 22 December 2020, Moody's reaffirmed the rating of Cyprus at Ba2 and maintained the positive outlook. The agency warned however that the recovery of the economy could be slower than expected while the high level of debt might impose increased risks given the reliance to tourism and services which could take longer to return to normality. During their fall reviews DBRS, S&P and Fitch retained the BBB- ratings with stable outlook.

In February 2021, the Government successfully raised €1 billion from a 5-year EMTN bond issuance with demand reportedly exceeding €8,5 billion and the yield close to zero. Specifically, the yield was shaped at 0,05% which is the lowest interest rate Cyprus has ever achieved for the 5-year tenure. In addition, Cyprus received the second instalment of €229 million for the funds from the European SURE employment support program.

In March 2021, S&P affirmed the rating of Cyprus at BBB- and its outlook to stable, balancing the risks from Covid-19 on growth, fiscal and banking sector performance against the benefits of the EU's Recovery and Resilience Facility transfers, plus further improvement in the government debt profile.

The reduction in NPEs continued in 2020 as NPE's dropped to €6,6 billion in Q2 2020 compared to €9,1 billion at the end of 2019. During the same period, provisions reached €3,7 billion or 55,6% of NPE's. The reduction in NPE's is primarily attributed to the portfolio sales that were concluded in the year as well as to the successful completion of the probation period of restructured loans, write-offs, repayments and settlement of debt through swaps with immovable property. The sector benefited from a general suspension of instalments and interest on performing credit facilities that was introduced as an emergency measure in response to the Covid crisis. The reduction in NPE's is expected to continue in 2021 as financial institutions continue to plan out further loan portfolio sales.

The Ministry of Finance projects that GDP growth for 2021 is expected to be around 3,5% and at 3,8% for 2023, as all sectors are expected to recover from the crisis. Over the same period, it is also anticipated that unemployment will resume its trajectory towards 5%. On the fiscal front, the budget is expected to return to positive territory in 2021 with the Debt/GDP ratio improving to 111% by the end of 2021 and to drop below 100% by the end of 2023.

Management Report (continued)

Business outlook and risks (continued)

Covid-19 impacted adversely the economic growth of the country and derailed its path to recovery, particularly in the short term. The coordinated measures taken by the European Union and the Government are expected to cushion the economy without compromising the fiscal discipline and public finances in the long term. Furthermore, the policies adopted by the ECB and the CBC are expected to address the challenges that could impact further the real economy.

The Bank has performed a number of stress tests on the quality of its loan portfolio which was affected by Covid-19 with satisfactory results. In addition, the financial scenarios performed in 2020 in the wake of Covid-19 have proved reliable with the Bank reporting satisfactory profitability 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 and factors included in Note 2, 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 14 and 15. Net profit for the year ended 31 December 2020 is retained.

Share capital

There were no changes in the Bank's share capital during the year ended 31 December 2020.

Management Report (continued)

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2020 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2020 and up to the date of this report, with the exception of Ms. A. Pittas who was appointed on the Board on 29 May 2020. Mr. M. Colakides resigned on 9 July 2020 having completed the regulatory maximum Board member tenor of 12 years.

On 13 March 2020 Mr. O. Ellingham was appointed as Chairman of the Board of Directors to replace Mr. R. Kyprianou whose 6-year tenure as Chairman of the Board had ended. Mr. R. Kyprianou remains as a Board member of the Bank.

There were no other 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 2020 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 33 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, 23 April 2021

KPMG Limited
Chartered Accountants
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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 14 to 167 and comprise the balance sheet as at 31 December 2020, the income statement, and the 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 2020, 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 Code of Ethics (Including International Independence Standards) for Professional Accountants of the International Ethics Standards Board for Accountants (''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.

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 16 to the financial statements.	
Key audit matter	**How the matter was addressed in our audit**
At 31 December 2020 the Bank reported total gross loans and advances to customers of €2.238.036 thousand and €45.965 thousand of expected credit losses (“ECL”). Key judgments and estimates in respect of the timing and measurement of 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. As a result of the significance of the amount, the judgements and estimates involved, as well as how these have been impacted by Covid-19, we have determined that ECL on loans and advances to customers is a key audit matter.	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). In our assessment, we have considered the potential effects of Covid-19. 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, including realisable value of collaterals. 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 the methodology used by the Bank's external experts to determine the fair value of the property collaterals. Additionally, we assessed the competence and independence of the Bank's external experts. 5. We assessed the adequacy and appropriateness of disclosures for compliance with the relevant accounting standards. We have also assessed that the impact of Covid-19 has been adequately disclosed.

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.

Responsibilities of the Board of Directors and those charged with governance for the financial statements (cont.)

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.
- 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.

Auditors' responsibilities for the audit of the financial statements (cont.)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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 3 years covering the periods ending 31 December 2018 to 31 December 2020.

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 16 April 2021.

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 L53(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.

Other legal requirements (cont.)

- 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

23 April 2021

Eurobank Cyprus Ltd

Income Statement
for the year ended 31 December 2020

	Note	**2020 €'000**	2019 €'000
Interest income calculated using the effective interest method	5	**91.875**	111.519
Other interest income	5	**9.648**	10.490
Interest expense calculated using the effective interest method	5	**(25.373)**	(43.091)
Other interest expense	5	**(944)**	(685)
Net interest income		**75.206**	78.233
Banking fee and commission income	6	**30.742**	32.284
Banking fee and commission expense	6	**(5.156)**	(6.212)
Net banking fee and commission income		**25.586**	26.072
Net trading (loss)/income	7	**(98)**	106
Net gains from other financial instruments	8	**8.224**	1.778
Other income		**1**	2
Net other operating income		**8.127**	1.886
Operating income		**108.919**	106.191
Staff costs	9	**(22.728)**	(20.794)
Depreciation and amortisation	19,20	**(5.447)**	(4.366)
Other operating expenses	10	**(12.042)**	(11.213)
Profit from operations before impairments and provisions		**68.702**	69.818
Impairment allowance on loans and advances	4.2.1.3	**(15.291)**	(11.100)
(Impairment)/reversal of impairment allowances and provisions	11	**(968)**	269
Profit before tax and government levies		**52.443**	58.987
Government levy on customer deposits	24	**(6.290)**	(6.375)
Income tax expense	12	**(6.011)**	(8.145)
Profit for the year		**40.142**	44.467

The notes on pages 19 to 166 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income
for the year ended 31 December 2020

	2020		2019	
	€'000		€'000	
Profit for the year		**40.142**		44.467
Other comprehensive income:				
Items that are or may be subsequently reclassified to income statement:				
Debt securities at FVOCI (note 17)				
- net changes in fair value, net of tax	**360**		6.603	
- reclassified to income statement, net of tax	**(7.937)**	**(7.577)**	(1.644)	4.959
Other comprehensive (loss)/income for the year, net of tax		**(7.577)**		4.959
Total comprehensive income for the year		**32.565**		49.426

The notes on pages 19 to 166 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet
at 31 December 2020

	Note	2020 €'000	2019 €'000
Assets			
Cash and balances with central banks	13	**1.196.388**	886.876
Due from credit institutions	14	**2.383.902**	2.407.637
Derivative financial instruments	15	**238**	598
Loans and advances to customers	16	**2.199.611**	2.097.428
Investment securities	17	**994.970**	885.355
Investments in subsidiaries	18	**11**	9
Property, plant and equipment	19	**29.763**	16.971
Intangible assets	20	**13.910**	7.973
Deferred tax assets	12	**1.125**	-
Other assets	21	**1.303**	799
Total assets		**6.821.221**	6.303.646
Liabilities			
Due to central banks	22	**548.541**	-
Due to credit institutions	23	**142.349**	182.774
Derivative financial instruments	15	**53.215**	16.063
Due to customers	24	**5.484.129**	5.545.712
Current tax liabilities	12	**1.573**	1.322
Deferred tax liabilities	12	**438**	97
Other liabilities	25	**64.274**	63.541
Total liabilities		**6.294.519**	5.809.509
Equity			
Share capital	26	**12.010**	12.010
Share premium	26	**245.384**	245.384
Other reserves	17	**7.380**	14.957
Retained earnings		**261.928**	221.786
Total equity		**526.702**	494.137
Total equity and liabilities		**6.821.221**	6.303.646

On 23 April 2021 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 19 to 166 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity for the year ended 31 December 2020

	Share capital €'000	Share premium €'000	Fair value reserve €'000	Retained earnings €'000	**Total equity €'000**
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**
Balance at 1 January 2020	**12.010**	**245.384**	**14.957**	**221.786**	**494.137**
Profit for the year	-	-	-	40.142	**40.142**
Other comprehensive loss for the year	-	-	(7.577)	-	**(7.577)**
Total comprehensive income for the year	**-**	**-**	**(7.577)**	**40.142**	**32.565**
Balance at 31 December 2020	**12.010**	**245.384**	**7.380**	**261.928**	**526.702**

The notes on pages 19 to 166 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement
for the year ended 31 December 2020

	Note	2020 €'000	2019 €'000
Cash flows from operating activities			
Profit before tax and government levies		**52.443**	58.987
Adjustments for:			
Amortisation of intangible assets	20	**1.575**	1.445
Depreciation of property, plant and equipment	19	**3.872**	2.921
Gain on disposal of property, plant and equipment	19	**(20)**	-
Impairment allowance on loans and advances to customers	4.2.1.3	**13.549**	10.318
(Reversal of impairment)/impairment allowance on investment securities	17	**(161)**	7
Impairment allowance on balances with central banks	13	**6**	-
Impairment/(reversal of impairment) allowance on due from credit institutions	14	**1**	(50)
Impairment allowance on credit related commitments and contingent liabilities	4.2.1.3	**1.742**	612
Interest income on investment securities	5	**(19.852)**	(23.197)
Foreign exchange differences on investing activities	17	**22.243**	(5.301)
Foreign exchange differences on impairment allowance on loans and advances to customers	4.2.1.3	**(24)**	(42)
Foreign exchange differences on right-of-use assets		**10**	(2)
Net gains on disposal of investment securities at FVOCI	8	**(8.262)**	(1.360)
Net losses on disposal of investment securities at AC	8	**4**	-
Net gains on revaluation of investment securities at FVTPL	8	**(35)**	(204)
		67.091	44.134
Changes in operating assets and liabilities			
Net decrease/(increase) in cash and balances with central banks	13	**897**	(7.729)
Net decrease/(increase) in due from credit institutions	14	**2.309**	(25)
Net decrease in derivative financial instruments	15	**37.512**	18.469
Net (increase)/decrease in loans and advances to customers	16	**(115.708)**	42.238
Disposals, write-offs and adjustments to right-of-use assets	19	**(981)**	(409)
Net (increase)/decrease in other assets	21	**(504)**	221
Net increase in due to central banks	22	**548.541**	-
Net decrease in due to credit institutions	23	**(40.425)**	(325.580)
Net (decrease)/increase in due to customers	24	**(61.583)**	705.731
Net increase in other liabilities	25	**1.284**	10.164
		371.342	443.080
Government levy on customer deposits paid	24	**(6.290)**	(6.375)
Income tax paid	12	**(6.544)**	(8.096)
Net cash flows from operating activities[1]		**425.599**	472.743
Cash flows from investing activities			
Investments in subsidiaries	18	**(2)**	(5)
Purchases of intangible assets	20	**(7.512)**	(5.918)
Purchases of property, plant and equipment	19	**(15.693)**	(4.758)
Proceeds from sale of property, plant and equipment	19	**20**	6
Proceeds from disposals, maturities and redemptions of investment securities	17	**387.474**	191.053
Payments for acquisition of investment securities	17	**(523.081)**	(309.168)
Interest received on investment securities	17	**24.478**	22.638
Net cash flows used in investing activities		**(134.316)**	(106.152)
Cash flows from financing activities			
Payment of lease liabilities[2]	28	**(2.293)**	(1.155)
Net cash flows used in financing activities		**(2.293)**	(1.155)
Net increase in cash and cash equivalents		**288.990**	365.436
Cash and cash equivalents at beginning of year	31	**3.236.711**	2.871.275
Cash and cash equivalents at end of year	31	**3.525.701**	3.236.711

[1]Includes interest received of €96.631 thousand (2019: €112.298 thousand) and interest paid of €31.291 thousand (2019: €45.630 thousand).
[2]The Bank has classified cash payments for the principal portion of lease payments as financing activities and cash payments for the interest portion amounting to €257 thousand (2019: €319 thousand) as operating activities.

The notes on pages 19 to 166 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 and 2.2 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 2020. 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 basis, 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 accordance with IFRS requires the use of estimates and judgments 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 Services and Holdings 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 2020.

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 S.A. 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) Position of the Group

During 2020 and the first quarter of 2021, the outbreak of coronavirus (Covid-19) pandemic and the measures adopted to contain the virus expansion have defined the economic environment in Greece. More specifically, the Covid-19 pandemic posed uncertainties and risks for both the macroeconomic environment and the ability of numerous businesses to operate under the restrictive measures, including countrywide and local lockdowns, adopted to contain the virus expansion.

Based on Hellenic Statistical Authority (ELSTAT) provisional data, the real GDP growth rate in the third quarter of 2020 was at -11,7% on an annual basis (first and second quarters of 2020 were at 0,4% and -14,2% respectively), mainly as a result of a significant drop in total consumption expenditure, investment and exports. The European Commission (EC) in its 2021 winter forecasts (February 2021) estimates a drop of 10,0% of real GDP in Greece in 2020, followed by a 3,5% recovery in 2021. The unemployment rate is estimated to increase to 18,0% in 2020 and then to fall to 17,5% in 2021 from 17,3% in 2019.

On the fiscal front, according to the EC's autumn economic forecasts (November 2020), Greece's fiscal primary balance in ESA2010 terms, is expected to register in 2020 and 2021 a deficit of 3,8% and 3,6% of GDP respectively, taking into account the public support measures as of 22 October 2020.

In response to the Covid-19 outbreak, there has been a monetary, fiscal and regulatory support to the economy and the banking system by both the Greek Government and the European authorities. According to the 2021 Budget, the Greek government's planned total measures for 2020 and 2021 aiming to address the economic effects of the Covid-19 pandemic amount to €23,9 billion and €7,6 billion respectively.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

a) Position of the Group (continued)

The European Council on 21 July 2020 agreed a recovery package amounted to €750 billion under the EC's Next Generation EU framework in order to support the recovery and resilience of the member states' economies, out of which circa €32 billion will be available for Greece. The respective amount for the Multiannual Financial Framework 2021-2027 (MFF) is at €1.100 billion, of which circa €40 billion will be available for Greece.

Regarding the outlook for the next 12 months, the major macroeconomic risks in Greece mainly relate with the outbreak of Covid-19 pandemic and are as follows: (a) the evolution of the health crisis including the probability of the continuation of the second pandemic wave well after the end of the first quarter of 2021, and its negative effect on the domestic, regional and / or global economy, (b) the progress on the Covid-19 vaccination programs, (c) the actual size of the fiscal measures aiming to address the effect of the pandemic on the real economy and their effect on the long-term sustainability of the country's public debt, (d) the pace of the economy's downturn in 2020 and the recovery in 2021 and 2022, (e) the effective utilisation of the various funds and the attraction of new investments, (f) the implementation of the reforms and privatisations' agenda and (g) the geopolitical conditions in the near or in broader region.

The Group is continuously monitoring the developments on the Covid-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business goals for the quarters ahead, focusing primarily on the support of its clients to overcome the challenging juncture, the mitigation of "cliff effects" when the moratoria measures begin to expire, the protection of its asset base and the resilience of its pre-provision profitability. In addition, the Group, under the extraordinary circumstances of the Covid-19 pandemic, has proceeded with the successful implementation of its Business Continuity Plan to ensure that business is continued and critical operations are unimpededly performed. In line with authorities' instructions and recommendations, the Group has taken all the required measures to ensure the health and safety of its employees and customers (e.g. implementation of teleworking, restrictions to business trips, and medical supplies for protective equipment).

As at 31 December 2020, the Group's total CAD and Common Equity Tier 1 (CET1) ratios stood at 16,3% (31 December 2019: 19,2%) and 13,9% (31 December 2019: 16,7%) respectively.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

b) The Cyprus economy

The Covid-19 crisis in Cyprus resulted in a seasonally adjusted GDP contraction of 4,5% in 4Q 2020. In accordance with official date released by CySTAT, this translates into a GDP contraction rate of 5,0% for 2020 vs the Government's estimate of 5,5% and the EU Commission's estimate of 6,2%.

The most affected sectors of the economy were real estate, hospitality, transportation, wholesale and retail trade, automobiles, leisure and entertainment. During the same period, GDP contraction in the Eurozone reached 4,2% while for the full year the EU commission expects the figure to reach -7,8%.

The Cyprus House of Parliament passed a bill allowing for a suspension of loan payments for a period of nine months until the end of December 2020. The bill 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 ('loan moratorium'). This applied to elligble borrowers with no arrears exceeding 30 days as at the end of February 2020 (Note 4.2.1.3 to the financial statements).

A second loan moratorium was launched in January 2021 for customers impacted by the second lockdown with payment deferrals until the end of June 2021 with the proviso that the total period of the loan moratorium, including the period of 2020 not exceeding the period of nine months.

Tourist arrivals recorded a steep decline in 2020, reaching an annual figure of 0,632 million which represents a decline of 84,1% compared to 2020. Inflation returned to a negative trajectory recording a 1,1% decline in 2020, while unemployment during the year increased by 8,2% to 7,6% on a seasonally adjusted basis.

Government budget for the year recorded a decline of 6,6% in total revenue to €7.758,8 million compared to an increase of 16,7% in total expenditure to €8.972,5 million. Combined with the contribution of other Government bodies, the budget recorded an overall deficit of €1.058,9 million or 5,0% of GDP, while the primary budget recorded a deficit of €564,1 million or 2,7% of GDP.

Government Debt/GDP increased to 121,7% for the first nine months of 2020 compared to 95,2% in 2019 as a result of increased debt issuance by the Government for prudency reasons as the progression of the crisis was unpredictable. In January 2020, the Government proceeded with two benchmark issues totaling €1.750 million in 10 and 20 year bonds. Following the escalation of the crisis the Government proceeded with additional long term EMTN issuances in April and in July totaling €2.750 million. Additionally, the Government tapped the local market for a 12-month T-bill for an amount of €1.250 million.

On the 22 December 2020, Moody's reaffirmed the rating of Cyprus at Ba2 and maintained the positive outlook. The agency warned however that the recovery of the economy could be slower than expected while the high level of debt might impose increased risks given the reliance to tourism and services which could take longer to return to normality. During their fall reviews DBRS, S&P and Fitch retained the BBB- ratings with stable outlook.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

b) The Cyprus economy (continued)

In February 2021, the Government successfully raised €1 billion from a 5-year EMTN bond issuance with demand reportedly exceeding €8,5 billion and the yield close to zero. Specifically, the yield was shaped at 0,05% which is the lowest interest rate Cyprus has ever achieved for the 5-year tenure. In addition, Cyprus received the second instalment of €229 million for the funds from the European SURE employment support program.

In March 2021, S&P affirmed the rating of Cyprus at BBB- and its outlook to stable, balancing the risks from Covid-19 on growth, fiscal and banking sector performance against the benefits of the EU's Recovery and Resilience Facility transfers, plus further improvement in the government debt profile.

The reduction in NPEs continued in 2020 as NPE's dropped to €6,6 billion in Q2 2020 compared to €9,1 billion at the end of 2019. During the same period, provisions reached €3,7 billion or 55,6% of NPE's. The reduction in NPE's is primarily attributed to the portfolio sales that were concluded in the year as well as to the successful completion of the probation period of restructured loans, write-offs, repayments and settlement of debt through swaps with immovable property. The sector benefited from a general suspension of instalments and interest on performing credit facilities that was introduced as an emergency measure in response to the Covid-19 crisis. The reduction in NPE's is expected to continue in 2021 as financial institutions continue to plan out further loan portfolio sales.

The Ministry of Finance projects that GDP growth for 2021 is expected to be around 3,5% and at 3,8% for 2023, as all sectors are expected to recover from the crisis. Over the same period, it is also anticipated that unemployment will resume its trajectory towards 5%. On the fiscal front, the budget is expected to return to positive territory in 2021 with the Debt/GDP ratio improving to 111% by the end of 2021 and to drop below 100% by the end of 2023.

Covid-19 impacted adversely the economic growth of the country and derailed its path to recovery, particularly in the short term. The coordinated measures taken by the European Union and the Government are expected to cushion the economy without compromising the fiscal discipline and public finances in the long term. Furthermore, the policies adopted by the ECB and the CBC are expected to address the challenges that could impact further the real economy.

The Bank has performed a number of stress tests on the quality of its loan portfolio which was affected by Covid-19 with satisfactory results. In addition, the financial scenarios performed in 2020 in the wake of Covid-19 have proved reliable with the Bank reporting satisfactory profitability 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.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

c) Going concern assessment

Taking into consideration the factors mentioned earlier on, 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 2020. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(a) Amendments to standards adopted by the Bank as of 1 January 2020

Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards
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 as well as 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 did not have a material impact on the financial statements.

Interest Rate Benchmark Reform - Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7
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 rate-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 ("RFR"). The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 in order to provide temporary reliefs from the potential effect of the uncertainty, during the transition period, which apply to all hedging relationships that are directly affected by the IBOR reform. These reliefs are related mainly to the highly probable requirement for the cash flow hedges, the compliance with the identifiable nature of the hedged risk component and the application of prospective and retrospective effectiveness tests. The amendments to IFRS 7 require additional disclosures in relation to the hedging relationships to which the above reliefs are applied.

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 as of 1 January 2020 (continued)

Interest Rate Benchmark Reform - Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7 (continued)

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. The first phase, as described above, focuses on hedge accounting issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase, effective from 1 January 2021, focuses on issues that might affect financial reporting once the existing rates are replaced with alternative rates (refer below to section ‘’new standards, amendments to standards and interpretations not yet adopted by the Bank”).

The Bank has adopted Interest Rate Benchmark Reform-(Amendments to IFRS 9, IAS 39 and IFRS 7 - Phase 1 amendments) from 1 January 2020, while the amendments have been applied retrospectively to hedging relationships that existed on that date or were designated thereafter and that are directly affected by the IBOR reform.

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 are applicable to the Bank.

Due to the adoption of the reliefs as of 1 January 2020, the Bank assumes that hedging relationships are unaffected by the uncertainties caused by the IBOR reform and they continue to be accounted for as continuing hedges.

The reliefs cease to apply once certain conditions are met. In particular, the Bank will cease to apply the amendments regarding the reliefs in hedge accounting when the uncertainties arising from the IBOR reform are no longer present with respect to the timing and the amount of the benchmark rate-based cash flows of the hedged items or hedging instruments, or when the hedging relationships to which the reliefs apply are discontinued. The Bank has assumed that this uncertainty will not end until the Bank’s contracts that reference IBORs are amended in order to specify the replacement of the interest rate benchmark, the date of such replacement as well as the cash flows of the RFR including the relevant spread adjustment.

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 (note 4.2.5).

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 as of 1 January 2020 (continued)

Amendments to IAS 1 and IAS 8: Definition of Material
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 depends on the nature or magnitude of information, or both, while an entity should assess whether information is material on its own or when combined with other information.

The definition of material in the Conceptual Framework was also amended in order to align with the revised definition in IAS 1 and IAS 8.

The adoption of the amendment did not have a material impact on the financial statements.

Amendment to IFRS 16 - Covid-19-Related Rent Concessions
In May 2020, the IASB issued “Covid-19-Related Rent Concessions (Amendment to IFRS 16)” that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16 “Leases”. The practical expedient permits lessees not to assess whether a Covid-19-related rent concession is a lease modification and requires lessees that apply the above exemption to account for Covid-19-related rent concessions as if they were not lease modifications.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met:
a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
c) There is no substantive change to other terms and conditions of the lease.

The amendment to IFRS16, as endorsed by the EU in October 2020, is effective for the annual reporting periods beginning on or after 1 June 2020 with earlier application permitted.

In March 2021, the IASB extended by one year the application period of the above practical expedient to IFRS 16. In particular, based on the amendment performed, the lessee may apply the practical expedient to Covid-19 related rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022. The amendment is effective for annual reporting periods beginning on or after 1 April 2021 and is expected to be endorsed by the EU during the first semester of 2021.

The adoption of the amendment did not have a material 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)

(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 2020, 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:

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2023, 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 have a material impact on the financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1 January 2021)
In August 2020, the IASB issued "Interest Rate Benchmark Reform: Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16", which addresses issues that affect financial reporting once an existing rate is replaced with an alternative rate (RFR) and provides specific disclosure requirements. The Phase 2 Amendments provide key reliefs related to contractual modifications due to the reform and to the hedging relationships affected by the reform.

More specifically, the amendments introduce a practical expedient if a contractual change, or changes to cash flows, result "directly" from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate, similar to changes to a floating interest rate. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform.

In addition, the Phase 2 amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentations without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR as well as redefining the description of the hedging instruments and/or the hedged items to reflect RFR.

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1 January 2021) (continued)
Based on the Phase 2 amendments, when performing a retrospective hedge effectiveness assessment under IAS 39, a company may elect to reset the cumulative fair value changes of the hedged item and hedging instrument to zero immediately after ceasing to apply the Phase 1 relief on a hedge-by-hedge basis. However, actual hedge ineffectiveness will continue to be measured and recognised in full in profit or loss. The Phase 2 amendments also clarify that changes to the method for assessing hedge ineffectiveness due to modifications required by the IBOR reform, will not result to the discontinuation of hedge accounting.

The amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9.

Consequential amendments were made by the Phase 2 Amendments to IFRS 7, to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Bank is currently assessing the impact of the adoption of the Phase 2 Amendments on the financial statements.

Annual improvement to IFRSs 2018-2020 cycle: IFRS9 and IFRS 16 (effective 1 January 2022, not yet endorsed by EU)
The improvements introduce changes to several standards. The amendments that are relevant to the Bank's activities are set out below:

The amendment to IFRS 9 "Financial Instruments" clarifies which fees should be included in the 10% test for derecognition of financial liabilities. The fees to be included in the assessment are only those paid or received between the borrower (entity) and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment to IFRS 16 "Leases" removes the illustration of the reimbursement of leasehold improvements, in order to avoid any potential confusion about the treatment of lease incentives.

The adoption of the amendments is not expected to have a material 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)

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

IAS 37, Amendment, Onerous Contracts – Costs of Fulfilling a Contract (effective 1 January 2022, not yet endorsed by EU)
The amendment to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' clarifies that the direct costs of fulfilling a contract include both the incremental costs and an allocation of other costs directly related to fulfilling contracts' activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The adoption of the amendment is not expected to have a material impact on the financial statements.

IAS 8, Amendments, Definition of Accounting Estimates (effective 1 January 2023, not yet endorsed by EU)
The amendments in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" introduced the definition of accounting estimates and include other amendments to IAS 8 which are intended to help entities distinguish changes in accounting estimates from changes in accounting policies.

The amendments clarify (a) how accounting policies and accounting estimates relate to each other by (i) explaining that accounting estimates are used in applying accounting policies and (ii) making the definition of accounting policies clearer and more concise, (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate, and (c) that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

The adoption of the amendments is not expected to have a material impact on the financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective 1 January 2023, not yet endorsed by EU)
IASB issued amendments to IAS 1 "Presentation of Financial Statements" to require entities to disclose their material accounting policies rather than their significant accounting policies.
According to IASB, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those 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 IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective 1 January 2023, not yet endorsed by EU) (continued)
Furthermore, the amendments clarify how an entity can identify material accounting policy information, while provide examples of when accounting policy information is likely to be material. The amendment to IAS 1 also clarify that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the "four-step materiality process" described in IFRS Practice Statement 2 Making Materiality Judgements to accounting policy disclosures, in order to support the amendments to IAS 1.

The adoption of the amendments is not expected to have a material impact on the financial statements.

Amendment to IAS 16 - Proceeds before Intended Use- PPE (effective 1 January 2022, not yet endorsed by EU)
The amendment to IAS 16 'Property, Plant and Equipment' prohibits an entity from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds received from the sale of items produced while the entity is preparing the asset for its intended use. Consequently, an entity recognises such sales proceeds and related costs in profit or loss.

The adoption of the amendment is not expected to have a material impact on the financial statements.

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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.1 Foreign currency translation (continued)

(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 income 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 a 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.

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.

On the other hand, derivatives embedded in financial liabilities, are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not itself 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.

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 (continued)

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:
- Reduction of interest rate exposure that is in excess of the Bank's interest rate limits
- Efficient management of interest rate risk and fair value exposure
- Management of future variable cash flows
- Reduction of 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).

In order to apply hedge accounting specified 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, 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.

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)

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.

As described in note 2.1.1, the Bank has applied IBOR reform amendments to IFRS 9, IAS 39 and IFRS 7, issued in September 2019, that provide temporary reliefs on hedging relationships due to the potential effect of the uncertainty on the amount and timing of cash flows indexed to IBOR and/or the interest benchmark designated as a hedged risk, during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate. Based on the reliefs, for the purpose of determining whether a forecast transaction is highly probable, or a hedging relationship is expected to be highly effective, the Bank assumes that the benchmark interest rate does not change as a result of the IBOR reform. In addition, the Bank, is not required to discontinue hedge accounting if the hedge falls outside the 80–125% range during the period of uncertainty arising from the reform. Furthermore, in case of hedges where the hedged item or hedged risk is a non-contractually specified benchmark portion of interest rate risk, following the IBOR reform reliefs, it is assumed that the designated risk portion only needs to be separately identifiable at the inception of the hedging relationship and not on a going basis.

The reliefs cease to apply once certain conditions are met. In particular, the Bank will cease to apply the amendments regarding the reliefs in hedge accounting when the uncertainties arising from the IBOR reform are no longer present with respect to the timing and the amount of the benchmark rate-based cash flows of the hedged items or hedging instruments, or when the hedging relationships to which the reliefs apply are discontinued.

(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.

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)

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.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the 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 hedging purposes are disclosed in note 15.

2.2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented 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 it is adjusted for the expected credit loss allowance ("ECL"). The gross carrying amount of a financial asset is its amortised cost before adjusting for ECL allowance.

The EIR calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue 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 and expense is presented separately in the income statement for all interest bearing financial instruments within net interest income.

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;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and
- negative interest on financial liabilities measured at amortised cost.

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;
- negative interest on financial assets measured at amortised cost; 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 over time 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. 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

As a lessee

When the Bank becomes the lessee in a lease arrangement, it recognises a lease liability and a corresponding right-of-use (RoU) asset at the commencement of the lease term when the Bank acquires control of the physical use of the asset.

Lease liabilities are presented within Other liabilities and RoU assets within Property, plant and equipment. Lease liabilities are measured based on the present value of the future lease payments over the lease term, discounted using an incremental borrowing rate. The interest expense on lease liabilities is presented within net interest income.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the RoU asset, or is recorded in profit or loss if the carrying amount of the RoU asset has been reduced to zero.

The RoU asset is initially recorded at an amount equal to the lease liability and is adjusted for rent prepayments, initial direct costs, or lease incentives received. Subsequently, the RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within operating expenses.

When a lease contains extension or termination options that the Bank considers reasonably certain to be exercised, the expected future lease payments or costs of early termination are included within the lease payments used to calculate the lease liability.

2.2.7 Income tax

Income tax comprises current and deferred tax. It is recognised in the 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 uncertainty 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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.7 Income tax (continued)

(ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base 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 balance sheet date. The principal temporary differences arise from impairments relating to loans and advances to customers, depreciation of property, plant and equipment and amortisation of computer software.

Deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which the 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 profit will be available. The Bank recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit 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.

(iii) Uncertain tax positions

The Bank determines and assesses all material tax positions taken, including all, if any, significant uncertain positions, in all tax years that are still subject to assessment by the tax authorities. In evaluating tax positions, the Bank examines all supporting evidence (Ministry of Finance circulars, individual rulings, case law, past administrative practices, ad hoc tax/legal opinions etc.) to the extent they are applicable to the facts and circumstances of the particular Bank's case/ transaction.

In addition, judgments concerning the recognition of a provision against the possibility of losing some of the tax positions are highly dependent on advice received from internal/external legal counselors. For uncertain tax positions with a high level of uncertainty, the Bank recognises, on a transaction by transaction basis: (a) a provision against tax receivable which has been booked for the amount of income tax already paid but further pursued in courts or (b) a liability for the amount which is expected to be paid to the tax authorities. The Bank presents in its balance sheet all uncertain tax balances as current or deferred tax assets or liabilities.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.8 Employee benefits

(i) Defined contribution plans

The Bank provides defined contribution pension plans where annual contributions are invested and allocated to specific asset categories. 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 those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and 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.

2.2.9 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 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

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%. The useful life of the Bank's core system is 15 years.

Expenditure on acquired and 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.

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 capitalised 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 by considering both external and internal sources of information such as a significant reduction in the asset's value and evidence that the economic performance of the asset is or will be worse than expected. 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 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

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.

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 at 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 derecognition, 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 at 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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial assets - Classification and measurement (continued)

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 derecognised, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

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

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 asset, 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 instrument's 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)

Financial assets - Classification and measurement (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 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 HTCS model 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 HTCS, 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)

Financial assets - Classification and measurement (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 financial 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)

Financial assets - Classification and measurement (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. This is done, as far as the lifetime of the instrument is concerned, by comparing the cumulative projected undiscounted cash flows of the real and the benchmark 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 transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The main transactions that are subject to the above de-recognition rules are repurchase agreements and stock lending transactions, where the assets transferred are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI for financial assets at FVOCI, is recognised in the income statement, except for cumulative gains or losses of FVOCI equity instruments which are not reclassified from OCI to income statement at the date of derecognition.

Modification of financial assets that may result in derecognition

In addition, derecognition of financial asset arises when its contractual cash flows are modified and the modification is considered substantial enough so that the original asset is derecognised and a new one is recognised. The Bank records the modified asset as a "new" financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.

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.

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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Derecognition of financial assets (continued)

Modification of financial assets that may result in derecognition (continued)

In cases where the modification of the contractual cash flows is not considered substantial (following the derecognition assessment performed using the derecognition 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.

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 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

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.

2.2.14 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 in accordance with a documented risk management or investment strategy; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.14 Financial liabilities (continued)

Classification and measurement (continued)

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.

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. 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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.15 Fair value measurement of financial instruments (continued)

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.

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).

For assets and liabilities that are measured at fair value on a recurring basis, 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.

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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Impairment of financial assets (continued)

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 derecognition, are classified initially in Stage 1.
- 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 derecognition (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 (refer to note 4.2.1.3). 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.
- There has been a breach of contract, such as a default or past due event.
- 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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Definition of default (continued)

- 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.

The new definition of default (“DoD”) for regulatory purposes introduced a new set of standards that will have a significant impact on governance, data, processes, systems and credit models. The new DoD is applicable from 1 January 2021 and is set in the Article 178 of Regulation (EU) No. 575/2013, the Commission Delegated Regulation (EU) 2018/171 and European Banking Authority (EBA) Guidelines (EBA/GL/2016/07). It aims at the harmonisation of the definition of default across institutions and jurisdictions in the European Union. In particular, the new DoD guidelines specify that days past due are counted from the date that both materiality thresholds are breached (an absolute amount of the total exposure and a relative as a percentage of the exposure), include conditions for a return to non-defaulted status (introduction of a probation period) and explicit criteria for classification of restructured loans as defaulted when the diminished financial obligation criterion is satisfied (difference between the net present value of cash flows before and after the restructuring exceeds the threshold of 1%). The DoD Guideline specify for corporate exposures an absolute threshold of €500 and a relative threshold of 1% of total exposure of the customer while for retail exposures the thresholds are €100 and 1% respectively. For an exposure to be classified as defaulted, it must exceed both thresholds for 90 consecutive days.

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.

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)

As a primary criterion for SICR assessment, the Bank compares the credit rating at origination with the credit rating at each reporting date. If the original credit rating is exceeded by a predetermined number of notches (note 3.1) then it is considered a case of SICR. Further to this indicator the Bank applies additional indicators such an absolute threshold on lifetime PD, an absolute threshold on internal credit rating, the grating or not of forbearance and finally a backstop rule of 30 days past due.

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 classified 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.

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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

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.

For exposures allocated in Stage 1 and Stage 2, ECL are measured on a collective basis, grouped into segments with shared risk characteristics such as portfolio type, business sector, credit rating and geographical location. 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 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 was 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.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Measurement of Expected Credit Losses (continued)

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"). 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.

The PD, LGD and EAD used for accounting purposes may differ from those used for regulatory purposes. For the purposes of 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.

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)

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.

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.

2.2.16 Impairment of financial assets (continued)

ECL Key Inputs (continued)

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 GDP growth rates.

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 derecognition 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).

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Modified financial assets (continued)

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 amount that is written-off is considered as derecognised. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

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 the sale and repurchase price in case of repos and the purchase and resale price in case of reverse repos is recognised 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 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 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, purchase and sale decisions 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) an entity that has significant influence over the Bank and entities controlled by this entity;
c) members of key management personnel of the Bank, their close family members and entities controlled or jointly controlled by the abovementioned persons;
d) associates and joint ventures of the Bank and the Group; and
e) 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, being the premium received. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the ECL 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 ECL allowance is recognised under IFRS 9.

ECL 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 cash in hand, unrestricted deposits 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 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the Bank will comply with the conditions attached to it. The grants are recognised in the income statement on a systematic basis to match the way that the Bank recognises the expenses for which the grants are intended to compensate. In case of subsequent changes in the Bank’s expectations of meeting the conditions attached to the government grants, the effect of such changes is recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.26 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 the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

2.2.27 Net trading income

"Net trading income" comprises gains less losses related to derivative financial instruments.

2.2.28 Net gains from other financial instruments

Net gains from other financial instruments relates to financial assets at FVOCI, financial assets at AC and financial assets mandatorily measured at FVTPL. The line item includes fair value changes, gains and losses on disposal and impairment allowances.

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, 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 current conditions, 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 (note 16)

The ECL measurement requires management to apply significant judgement, 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.

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

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

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. In addition, temporary adjustments may be required to capture new developments and information available, which are not reflected yet in the ECL calculation through the risk models.

Due to the extraordinary circumstances of the Covid-19 pandemic and although ECL calculation methodology remained unchanged compared to 31 December 2019, the Bank revised the assumptions and estimates applied in order to reflect appropriately, to the extent possible, the negative impact of the pandemic. Accordingly, Management applied the appropriate level of judgement regarding its expectations for the severity and the duration of the economy's negative outlook, in line with the IASB, the European Central Bank ("ECB") and other banking regulators' statements, which emphasise the need for overlays where the risk models do not capture the specific circumstances.

The elements of the ECL models that are considered significant 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 increase 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.

In the context of SICR assessment during the Covid-19 pandemic outbreak, the Bank took into consideration the disruptive effect of overly pro-cyclical assumptions inherent in the IFRS9 models that aggravate the ECL results, as well as the fact that the entire lending portfolios are not equally affected by the pandemic. Accordingly, a bottom-up exercise was conducted to determine SICR and ECL. Such approach is in line with the regulators' and accounting bodies' guidance in relation to the estimation of the Covid-19 impact on ECL.

The bottom-up approach included an individual assessment for selected obligors, transferring certain exposures to Stage 2. More specifically the impact on staging due to the introduction of the moratorium is the suspension of the backstop IFRS 9 rule. In order to counter this effect as well as other indirect effects of Covid-19 that degrade the performance of the staging model, the Bank introduced a separate process under which a significant part of the portfolio under moratorium was stressed-tested for SICR. The stress test was conducted using a four-factor screening process and specifically i) sector, ii) financial ratios, iii) detrimental and transactional behavior and iv) behavior under the moratorium.

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

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

Determination of a significant increase in credit risk (continued)

Risk parameters such as PD, LGD and EAD were recalculated as per the latest data to reflect accurately the synthesis of the current portfolio. However, in order to preserve the integrity of PD from the moratorium effect (no counting of days past due), data up to March 2020 were used for PD estimation (the period of 1 April to 31 December 2020 has been excluded).

As a result of the above exercise, circa €51 million of facilities originally classified as Stage 1, were reclassified as Stage 2 as at 31 December 2020. The ECL impact is €44,7 thousand.

SICR thresholds are based on the comparison of the origination and reporting date credit ratings, whereby rating downgrades represent changes in residual lifetime PD. Similar to retail exposures, the Bank segments the wholesale portfolios based on portfolio type, business sector, credit rating and geographical location.

As of 31 December 2020 and 2019, 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
1-2	Three notches or more
3-5	Two notches or more
6-8	One notch or more

The timely and accurate monitoring of the borrowers under payment moratoria is a prerequisite for the successful implementation of initiatives undertaken to address of Covid-19 pandemic, aiming at mitigating anticipated cliff effects upon their expiration within 2020 and 2021. In line with EBA Guidelines regarding the application of general payment moratoria, the Bank continued assessing borrowers in terms of financial difficulty and unlikeliness to pay triggers. To that end, the Bank proactively segmented lending portfolios, identifying borrowers and sectors requiring prioritisation, which are mainly hoteling, airlines/transportation, oil and gas and manufacturing and construction, in terms of monitoring and active management.

Furthermore, the regular back-stop SICR criteria in the Bank's accounting policy for lending portfolios remain valid in the post Covid-19 era with no exceptions. Accordingly, irrespective of whether the population is considered affected or not following the application of the seggregation described above, the Stage 2 re-classification criteria for lending exposures of >30 dpd and forborne classification were applied.

Based on recent banking regulators' and accounting guidance (EBA, ECB, IASB) Covid-19 relief measures should neither be treated as forbearance nor automatically trigger a significant increase in credit risk. Such measures are accounted for as modifications, granted for other than forbearance reasons.

Management continuously monitors the pandemic consequences to all sectors of the economy, in contemplation with the expected remedy effect of the government actions, in order to assess whether there is a significant increase in credit risk.

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. Changes in these assumptions and in other external factors could significantly impact ECL. As at 31 December 2020 and 2019, 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.

The key assumptions underlying in each macroeconomic scenario are provided below:

• *Base scenario:*
The base scenario assumes a continuation of the recession for the H1/21 as a result of the second lockdown imposed at the end of 2020. The economy will start to recover by H2 counterbalancing up to an extent the recessionary effect of H1.

• *Optimistic scenario:*
Under this scenario, the second lockdown is terminated swiftly, thereby allowing a quicker recovery in 2021. The vaccination process will be completed timely domestically and abroad and better absorption of EU funds is pre-supposed.

• *Adverse scenario:*
The adverse scenario assumes that the second lockdown that started in November 2020 continues also in the first half of 2021 or is sporadically re-enacted throughout the following months as a result of problems in the logistics of the vaccination process domestically and abroad. This results to the continuation of recession in 2021, however at a slower rate than in 2020. The prolonged lockdown results also to the destruction of productive capabilities. This scenario considers ineffective use of fiscal stimulus in 2021 and/or inadequate budget funding funds conditional on the continuation of the lockdown, while it expects also further delays in the flows from available EU funds and initiatives.

Forward-looking information

In 2020, in order to respond to the unprecedented circumstances of the Covid-19 crisis, the Bank updated the key macroeconomic forecasts in all three macroeconomic scenarios, incorporating the estimated impact of the second lock down and the overall effect that Covid-19 is expected to have on the macroeconomic outlook based on the most recent available information.

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

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

Forward-looking information (continued)

The arithmetic averages of the scenarios' probability-weighted annual forecasts for the next four-year period, following the reporting date, used in the ECL measurement for the year ended 31 December 2020 and 31 December 2019, are set in the following table:

Key macroeconomic indicator	**31 December 2020 Average (2021-2024) annual forecast**	31 December 2019 Average (2020-2023) annual forecast
Gross Domestic Product growth	**1,26%**	3,08%

The basis of the GDP projection is information collected from official sources such as the Ministry of Finance, the Central Bank of Cyprus and the European Community, incorporating also the Bank's management views on the future evolution of economic activity.

Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL amount. The Bank independently validates all models and underlying methodologies used in the ECL measurement through competent resources, who are independent of the model development process. The validation is a continuous process so as to ensure the uninterrupted and satisfactory performance of the model in the period ahead.

Assessment of LGD

The Bank's assumptions on the expected recovery period, the collateral realisation haircut and costs to the Bank on the repossession and subsequent sale of the collaterals were developed as a factor to estimate LGD.

As at 31 December 2020, the weighted average collateral realisation haircut (including costs to sell) used in the Stages 1 and 2 ECL calculation approximates to 26,34% (2019: 26,33%) while the respective weighted average recovery period for property collaterals approximates to 5 years (2019: 5 years).

For exposures in Stage 3, to achieve the objective of measuring ECL, the Bank calculates individually assessed loss allowances based on the weighted average of three scenarios, i.e. baseline, adverse and optimistic with the same probability weights as in the case of Stage 1 and 2 exposures.

The weighted probability scenarios are focused on the specific facts and circumstances of each borrower with key inputs/ assumptions being the operational cash flows (where this is appropriate), the expected recovery period, the collateral realisation haircut and costs to the Bank on the repossession and subsequent sale of the collaterals.

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

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

Assessment of LGD (continued)

Any changes in these assumptions or a variance between assumptions made and actual results could result in significant changes in the amount of required credit losses on loans and balances due to customers.

As at 31 December 2020, the weighted average collateral realisation haircut (including costs to sell) used in Stage 3 ECL calculation approximates to 40,75% (2019: 30,5%), while the respective weighted average recovery period for property collaterals approximates to 6,25 years (2019: 5,25 years).

Development of ECL models, including the various formulas, choice of assumptions, inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterisation based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EADs, PDs, LGDs, etc., incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as GDP 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.

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

The expected lifetime of revolving facilities has been estimated based on statistical analysis of past data.

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.

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

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

Modeling and Management overlays / 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 have been validated by a related group entity who is independent of the model development process and are approved by the Board Risk Committee ("BRC").

In response to the Covid-19 pandemic, the Bank applied the segregation approach detailed above in section ''Determination of a significant increase of credit risk'' to supplement its SICR assessment, in line with the IASB, the ECB and other banking regulators' statements.

In addition, the developments of the Covid-19 pandemic, induce a high level of uncertainty regarding their potential impact on the asset quality, considering that the customer relief measures introduced by the government as well as Bank's support programs may not fully eliminate the potential credit deterioration and therefore temporarily delay its manifestation. In view of such anticipated adverse effect, Management performed a bottom-up stress test of the lending portfolio and identified exposures with SICR which were reallocated to Stage 2.

Sensitivity analysis on lending portfolios

Sensitivity analysis when performed on certain key parameters can provide meaningful information only for portfolios where the risk parameters have a significant impact on the overall credit risk of a lending portfolio, particularly where such sensitivities are also used for internal credit risk management purposes. Otherwise, a sensitivity on certain combinations of some risk parameters may not produce meaningful results, as in reality there are interdependencies between the various economic inputs, rendering any changes in the parameters, changes correlated in other factors.

Based on the above favourable and adverse scenario weighting variation, a re-estimation of key indicators linked to these variations, namely recovery periods, haircuts and PDs, was performed. The tables below present the estimated effect in the Bank's ECL measurement (including off-balance sheet items) per stage, due to combined changes of forecasts in key indicators:

	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)	
	2020	2019
	€'000	€'000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	**84**	20
Decrease the adverse weight by 5% and increase the favourable weight by 5%	**(84)**	(20)
Increase the expected recovery period by 1 year	**177**	242
Decrease the expected recovery period by 1 year	**(166)**	(216)
Increase the collateral realisation haircut by 5%	**300**	597
Decrease the collateral realisation haircut by 5%	**(266)**	(700)
Increase in the PDs by 20%	**2.827**	720
Decrease in the PDs by 20%	**(1.699)**	(720)

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)	
	2020	2019
	€'000	€'000
Increase the expected recovery period by 1 year	**1.459**	997
Decrease the expected recovery period by 1 year	**(1.519)**	(824)
Increase the collateral realisation haircut by 5%	**3.312**	3.625
Decrease the collateral realisation haircut by 5%	**(3.276)**	(3.427)
Increase the adverse weight by 5% and decrease the optimistic weight by 5%	**306**	185
Decrease the adverse weight by 5% and increase the optimistic weight by 5%	**(306)**	(489)

The Bank updates and reviews the reasonability and performs back-testing of the applicable recovery periods and haircuts for 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.

As a result of Covid-19, in 2020 the Bank performed an additional sentitivity analysis on the effect on ECL by changing the weights of the IFRS 9 scenarios as per the below assumptions:

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost		
	12 month ECL (Stage 1)	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL credit-impaired (Stage 3)**
	€'000	**€'000**	**€'000**
Adverse 75%, Base 25%	413	294	2.678
Optimistic 75%, Base 25%	(323)	(236)	(2.865)

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 well-structured 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.

As a response to Covid-19, the Bank reviewed and revised its IFRS 9 framework by conducting a bottom-up exercise to identify SICR. At the same time the Bank reviewed its lending strategy and undertook initiatives to support its customers facing temporary liquidity needs due to the pandemic. Also it classified sectors according to the degree they were affected by Covid-19 so as to monitor and manage its exposures effectively as well as identify opportunities for further credit expansion.

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.

Foreign exchange lending risk refers to the risk of loss due to exchange rate movements which in the case of loans denominated in a foreign currency, can strongly influence a borrower's debt-servicing capacity, thus impacting credit risk.

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.

In the context of SICR assessment during the Covid-19 pandemic outbreak, the Bank took into consideration the disruptive effect of overly pro-cyclical assumptions inherent in the IFRS9 models that aggravate the ECL results, as well as the fact that the entire lending portfolios are not equally affected by the pandemic, as described in note 3.1.

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 existing 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.

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 2020 and 2019, 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.

	2020 €'000		2019 €'000	
Credit risk exposures relating to on-balance sheet assets:				
Cash and balances with central banks	1.196.402		886.884	
Less: impairment allowance	(14)	**1.196.388**	(8)	**886.876**
Due from credit institutions at AC	2.384.294		2.405.371	
Less: impairment allowance	(392)	**2.383.902**	(44)	**2.405.327**
Due from credit institutions mandatorily at FVTPL		**-**	2.310	**2.310**
Derivative financial instruments		**238**		**598**
Loans and advances to customers at AC:				
Retail lending:				
- Mortgage	11.092		11.093	
- Consumer	22.170		20.762	
- Affluent banking	33.217		21.510	
- Credit cards	680		726	
Wholesale lending:				
- Large corporate	1.230.650		1.122.943	
- Wealth management	321.486		296.283	
- International business banking	458.471		473.965	
- Shipping	160.270		188.942	
Less: impairment allowance	(45.965)	**2.192.071**	(47.527)	**2.088.697**
Loans and advances to customers mandatorily at FVTPL		**7.540**		**8.731**
Investment securities at FVOCI		**630.366**		**537.184**
Investment securities at AC	362.807		346.489	
Less: impairment allowance	(392)	**362.415**	(553)	**345.936**
Investment securities mandatorily at FVTPL		**2.189**		**2.235**
Other assets		**148**		**177**
Total		**6.775.257**		**6.278.071**
Credit risk exposures relating to off-balance sheet items (note 29):				
Financial guarantee contracts and other credit related commitments		**146.164**		**191.117**
Loan commitments		**434.166**		**377.636**
Less: impairment allowance		**(2.748)**		**(1.006)**
Total		**577.582**		**567.747**

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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)

4.2.1.2 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 2020 and 2019:

	2020	2019
At amortised cost:	**€'000**	€'000
Aaa to Aa3	**71.127**	22.866
A1 to A3	**46.554**	24.988
Baa1 to Baa3	**56.679**	52.107
Ba1 to Ba3	**39**	-
Caa1 to Caa3	**2.208.729**	2.304.680
Not rated	**819**	730
Gross carrying amount	**2.383.947**	2.405.371
Less impairment allowance	**(45)**	(44)
Carrying amount	**2.383.902**	2.405.327
Mandatorily at FVTPL:		
Caa1 to Caa3	**-**	2.310
Carrying amount	**2.383.902**	2.407.637

Amounts due from credit institutions include reverse repurchase agreements of €2.127.288 thousand (2019: €2.281.872 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2020, approximately €1.767.766 thousand (2019: €2.182.204 thousand), are fully secured by bonds which are ECB eligible and rated as investment grade.

The movement in impairment allowance of amounts due from credit institutions in 2020 and 2019 is as follows:

	2020 12-month ECL €'000	2019 12-month ECL €'000
Balance at 1 January	**44**	94
New financial assets	**27**	14
Impact of ECL net remeasurement	**(9)**	(56)
Financial assets that have been derecognised	**(15)**	(10)
Foreign exchange	**(2)**	2
Balance at 31 December	**45**	44

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

(a) Credit quality of loans and advances to customers

Loans and advances to customers carried at amortised cost are allocated in stages 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.

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 not credit-impaired (Stage 1 and Stage 2) and those classified as credit-impaired (Stage 3), as well as the carrying amount of those loans and advances to customers carried at FVTPL. 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 carrying amount.

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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)

4.2.1.3 Loans and advances to customers (continued)

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

	31 December 2020								
	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	11.092	-	-	11.092	-	-	-	**11.092**	
Value of collateral	*10.940*	-	-						***10.940***
- Consumer	22.148	4	18	22.170	260	-	10	**21.900**	
Value of collateral	*918*	-	-						***918***
- Affluent banking	31.720	1.124	373	33.217	89	6	114	**33.008**	
Value of collateral	*30.033*	*1.059*	*358*						***31.450***
- Credit card	666	11	3	680	4	1	1	**674**	
Value of collateral	*53*	-	-						***53***
Wholesale lending:									
- Large corporate	1.041.843	138.535	50.272	1.230.650	3.124	1.758	28.025	**1.197.743**	
Value of collateral	*782.945*	*123.777*	*46.028*						***952.750***
- Wealth management	288.054	15.166	18.266	321.486	561	173	10.229	**310.523**	
Value of collateral	*274.753*	*14.714*	*17.485*						***306.952***
-International business banking	457.192	2	1.277	458.471	1	1	1	**458.468**	
Value of collateral	*455.697*	-	*1.275*						***456.972***
- Shipping	158.677	-	1.593	160.270	14	-	1.593	**158.663**	
Value of collateral	*158.645*	-	-						***158.645***
	2.011.392	**154.842**	**71.802**	**2.238.036**	**4.053**	**1.939**	**39.973**	**2.192.071**	***1.918.680***
Loans and advances to customers mandatorily at FVTPL:									
- Large corporate								**7.540**	***7.434***
Total	**2.011.392**	**154.842**	**71.802**	**2.238.036**	**4.053**	**1.939**	**39.973**	**2.199.611**	***1.926.114***
Value of collateral	***1.713.984***	***139.550***	***65.146***	***1.918.680***					
Credit related commitments:									
Financial guarantee contracts and other credit related commitments	139.374	6.647	143	146.164	900	209	-		
Loan commitments	413.814	19.508	844	434.166	1.137	502	-		
	553.188	**26.155**	**987**	**580.330**	**2.037**	**711**	**-**		
Value of collateral	***164.791***	***9.910***	***483***	***175.184***					

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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)

4.2.1.3 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 mandatorily 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)

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 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 2020			
	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	11.092	-	-	**11.092**
- Consumer				
Strong	22.145	-	-	**22.145**
Satisfactory	3	1	-	**4**
Watch list	-	3	-	**3**
Impaired	-	-	18	**18**
- Affluent banking				
Strong	22.332	264	-	**22.596**
Satisfactory	9.388	860	-	**10.248**
Impaired	-	-	373	**373**
- Credit card				
Strong	371	6	-	**377**
Satisfactory	295	5	-	**300**
Impaired	-	-	3	**3**
Wholesale lending:				
- Large corporate				
Strong	798.570	16.692	-	**815.262**
Satisfactory	243.273	88.529	-	**331.802**
Watch list	-	33.314	-	**33.314**
Impaired	-	-	50.272	**50.272**
- Wealth management				
Strong	275.036	3.785	-	**278.821**
Satisfactory	13.018	9.685	-	**22.703**
Watch list	-	1.696	-	**1.696**
Impaired	-	-	18.266	**18.266**
- International business banking				
Strong	456.860	2	-	**456.862**
Satisfactory	332	-	-	**332**
Impaired	-	-	1.277	**1.277**
- Shipping				
Strong	158.638	-	-	**158.638**
Satisfactory	39	-	-	**39**
Impaired	-	-	1.593	**1.593**
	2.011.392	**154.842**	**71.802**	**2.238.036**

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 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**

Loans and advances to customers measured at FVTPL with a carrying amount of €7.540 thousand as at 31 December 2020 (2019: €8.731 thousand) are rated as strong as per the credit quality classification categories of the Bank.

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 2020			
	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	100.939	800	-	**101.739**
Satisfactory	38.435	4.534	-	**42.969**
Watch list	-	1.313	-	**1.313**
Impaired	-	-	143	**143**
Loan commitments:				
Strong	349.114	744	-	**349.858**
Satisfactory	64.700	15.643	-	**80.343**
Watch list	-	3.121	-	**3.121**
Impaired	-	-	844	**844**
	553.188	**26.155**	**987**	**580.330**

	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**

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.

	Internal Credit Rating	
	2020	2019
Credit quality classification categories		
Strong	CR1 – CR4	CR1 - CR2
Satisfactory	CR5 - CR6	CR3 - CR6
Watch list	CR7 - CR9	CR7 - CR9
Impaired	CR10	CR7 - CR10

The Bank performed a number of revisions in the rating scale as part of an ongoing process so that risk categories reflect more appropriately the underlying credit quality.

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 2020 to 31 December 2020, and from 1 January 2019 to 31 December 2019, respectively:

	31 December 2020						
	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	1.896.999	112.919	72.215	53.433	271	387	**2.136.224**
New financial assets originated or purchased	352.584	-	-	14.265	-	-	**366.849**
Transfers:							
- To 12-month ECL	11.470	(11.470)	-	7	(5)	(2)	**-**
- To lifetime ECL not credit-impaired	(50.717)	50.889	(172)	(931)	931	-	**-**
- To lifetime ECL credit- impaired	(3.940)	(13.299)	17.239	(1)	-	1	**-**
Financial assets derecognised	(17.255)	-	-	(343)	-	-	**(17.598)**
Amounts written off	-	-	(15.175)	-	-	-	**(15.175)**
Repayments	(257.050)	(8.038)	(5.508)	(4.674)	(74)	(5)	**(275.349)**
Foreign exchange difference and other movements	13.675	22.702	2.809	3.870	16	13	**43.085**
Gross carrying amount at 31 December	**1.945.766**	**153.703**	**71.408**	**65.626**	**1.139**	**394**	**2.238.036**
Less impairment allowance	(3.700)	(1.932)	(39.847)	(353)	(7)	(126)	**(45.965)**
Carrying amount at 31 December	**1.942.066**	**151.771**	**31.561**	**65.273**	**1.132**	**268**	**2.192.071**

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						
	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**

The contractual amount outstanding on lending exposures that were written off during the year ended 31 December 2020 and that are still subject to enforcement activity is €12.650 thousand (2019: €22.591 thousand).

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)

4.2.1.3 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 2020 to 31 December 2020, and from 1 January 2019 to 31 December 2019, respectively:

31 December 2020

	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	339.067	38.231	338	154.966	36.021	130	**568.753**
Net increase/(decrease)	74.299	(17.882)	113	(13.187)	(31.779)	13	**11.577**
Transfers:							
- To 12-month ECL	3.215	(3.213)	(2)	11	(11)	-	**-**
- To lifetime ECL not credit-impaired	(2.705)	2.706	(1)	(2.415)	2.416	(1)	**-**
- To lifetime ECL credit-impaired	(62)	(334)	396	(1)	-	1	**-**
Nominal amount at 31 December	**413.814**	**19.508**	**844**	**139.374**	**6.647**	**143**	**580.330**

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**

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 2020 and 2019 as follows:

31 December 2020

	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	1.796	1.410	44.147	143	1	30	**47.527**
New financial assets originated or purchased	1.216	-	-	62	-	-	**1.278**
Transfers:							
- To 12-month ECL	140	(140)	-	-	-	-	**-**
- To lifetime ECL not credit-impaired	(56)	228	(172)	-	-	-	**-**
- To lifetime ECL credit- impaired	(283)	(339)	622	-	-	-	**-**
Impact of ECL net remeasurement	887	773	10.348	156	6	101	**12.271**
Amounts written off	-	-	(15.175)	-	-	-	**(15.175)**
Recoveries from written off loans	-	-	88	-	-	-	**88**
Foreign exchange difference and other movements	-	-	(11)	(8)	-	(5)	**(24)**
Balance at 31 December	**3.700**	**1.932**	**39.847**	**353**	**7**	**126**	**45.965**

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	-	-	(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**

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 2020 and 2019 as follows:

	31 December 2020				
	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	315	373	76	242	1.006
Net increase / (decrease)	135	(2)	559	(2)	**690**
Transfers:					
- To 12-month ECL	26	(26)	-	-	**-**
- To lifetime ECL not credit-impaired	(50)	50	(12)	12	**-**
- To lifetime ECL credit-impaired	-	-	-	-	**-**
Impact of ECL net remeasurement	711	107	277	(43)	**1.052**
Balance at 31 December	**1.137**	**502**	**900**	**209**	**2.748**

	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**

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 2020 amounted to €15.291 thousand (2019: €11.100 thousand) and are analysed as follows:

	2020	2019
	€’000	€’000
Impairment allowance on loans and advances to customers	**13.549**	10.319
Modification loss on loans and advances to customers	**-**	169
Impairment allowance on loan commitments	**951**	374
Impairment allowance on financial guarantee contracts and other credit related commitments	**791**	238
Total	**15.291**	11.100

Impairment losses on loans and advances to customers recognised in the Bank’s income statement for the year ended 31 December 2020 was €15,3 million.
In particular, the impairment losses recognised by the Bank for the year ended 31 December 2020 remained above the respective amount of 2019, due to the Covid-19 pandemic circumstances and the prevailing uncertainties regarding the timing and the prospects of the economy’s recovery (note 3).

As described in note 3.1 the Bank continues to monitor closely and constantly re-assesses all the latest available information due to the high uncertainty, arising from the subsequent rounds of lockdowns in Cyprus and abroad and their negative effect on the economies in which the Bank operates, the nature, size and effectiveness of the government support measures, as well as, the consumer and investment post-crisis behavioural impact.

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)

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 2020

	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	-	-	357	2	37.731	12.070	-	-	**50.160**
90 to 179 days	-	-	-	-	-	2	1	-	**3**
180 to 360 days	-	8	-	1	332	74	-	-	**415**
More than 360 days	-	10	16	-	12.209	6.120	1.276	1.593	**21.224**
Total gross carrying amount	**-**	**18**	**373**	**3**	**50.272**	**18.266**	**1.277**	**1.593**	**71.802**
Impairment allowance	-	(10)	(114)	(1)	(28.025)	(10.229)	(1)	(1.593)	**(39.973)**
Carrying amount	**-**	**8**	**259**	**2**	**22.247**	**8.037**	**1.276**	**-**	**31.829**
Value of collateral	**-**	**-**	**358**	**-**	**46.028**	**17.485**	**1.275**	**-**	**65.146**

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)

Loans and advances to customers at amortised cost – overdue status

The following table sets out information about the overdue status of loans and advances to customers in Stages 1 and 2:

	31 December 2020		
	Stage 1 €'000	Stage 2 €'000	**Total €'000**
Current	2.010.585	153.690	**2.164.275**
Overdue less than 30 days	807	715	**1.522**
Overdue more than 30 days	-	437	**437**
Gross carrying amount	**2.011.392**	**154.842**	**2.166.234**
Impairment allowance	(4.053)	(1.939)	**(5.992)**
Carrying amount	**2.007.339**	**152.903**	**2.160.242**

	31 December 2019		
	Stage 1 €'000	Stage 2 €'000	**Total €'000**
Current	1.942.807	108.439	**2.051.246**
Overdue less than 30 days	7.625	4.322	**11.947**
Overdue more than 30 days	-	429	**429**
Gross carrying amount	**1.950.432**	**113.190**	**2.063.622**
Impairment allowance	(1.939)	(1.411)	**(3.350)**
Carrying amount	**1.948.493**	**111.779**	**2.060.272**

Regulatory definitions

The new definition of default ("DoD") for regulatory purposes introduced a new set of standards that will have a significant impact on governance, data, processes, systems and credit models. The new DoD is applicable from 1 January 2021 and is set in the Article 178 of Regulation (EU) No. 575/2013, the Commission Delegated Regulation (EU) 2018/171 and European Banking Authority ("EBA") Guidelines (EBA/GL/2016/07). It aims at the harmonisation of the definition of default across institutions and jurisdictions in the European Union. In particular, the new DoD guidelines specify that days past due are counted from the date that both materiality thresholds are breached (an absolute amount of the total exposure and a relative as a percentage of the exposure), include conditions for a return to non-defaulted status (introduction of a probation period) and explicit criteria for classification of restructured loans as defaulted when the diminished financial obligation criterion is satisfied (difference between the net present value of cash flows before and after the restructuring exceeds the threshold of 1%). The DoD guidelines specify for corporate exposures an absolute threshold of €500 and a relative threshold of 1% of total exposure of the customer while for retail exposures the thresholds are €100 and 1% respectively. For an exposure to be classified as defaulted, it must exceed both thresholds for 90 consecutive days.

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)

Regulatory definitions (continued)

The Bank will apply the above new provisions of DoD, in order to identify defaulted exposures starting from 1 January 2021, consistently across all its lending portfolios. Accordingly, the definition of default for accounting purposes will be aligned with the new DoD, that will be also be the one used for internal credit risk management purposes. The impact in the Bank's Excepted Credit Loss from the implementation of the new definition of default is not expected to be material.

(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.

During 2020 in response to the Covid-19 pandemic, the EBA published guidelines on payment moratoria whereby the application of a general payment moratorium that meets the requirements of the guidelines would not in itself lead to a reclassification under the definition of forbearance. However, institutions should continue to categorise the exposures as performing or non-performing in accordance with the applicable requirements. More precisely, as a general principle, before granting a forbearance measure, credit institutions should carry out an individual assessment of the repayment capacity of the borrower and grant forbearance measures tailored to the specific circumstances of the borrower in question.

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:

	2020	2019
	€'000	€'000
Forbearance measures:		
Split balance	**224**	-
Loan term extension	**31.361**	31.168
Arrears capitalisation	**1.307**	2.334
Interest rate reduction	**2.813**	96
Reduced payment above interest owed	**10.426**	10.154
Interest only	**14.434**	20.504
Grace period	**888**	980
Debt/equity swaps	**2.153**	-
Other	**854**	-
Total gross carrying amount	**64.460**	65.236
Less impairment allowance	**(21.804)**	(20.148)
Total carrying amount	**42.656**	45.088

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

	31 December 2020		
	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	2.011.392	-	-
Lifetime ECL not credit-impaired	154.842	19.655	12,7
Lifetime ECL credit-impaired	71.802	44.805	62,4
Total gross carrying amount	**2.238.036**	**64.460**	**2,9**
Impairment allowance:			
12-month ECL	4.053	-	-
Lifetime ECL not credit-impaired	1.939	402	20,7
Lifetime ECL credit-impaired	39.973	21.402	53,5
Total impairment allowance	**45.965**	**21.804**	**47,4**
Carrying amount	**2.192.071**	**42.656**	**1,9**
Collateral received	**1.918.680**	**58.561**	

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 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**	

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

	2020 €'000	2019 €'000
Gross carrying amount at 1 January	**65.236**	86.829
Forbearance measures in the year[1]	**6.012**	9.222
Repayment of loans	**(6.010)**	(12.866)
Forborne loans derecognised	**-**	(578)
Write-offs of forborne loans	**(316)**	(3.663)
Loans & advances that exited forbearance status	**(462)**	(13.708)
Gross carrying amount	**64.460**	65.236
Less impairment allowance	**(21.804)**	(20.148)
Carrying amount at 31 December	**42.656**	45.088

[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:

	2020	2019
	€'000	€'000
Retail lending:		
- Affluent banking	**190**	-
Wholesale lending:		
- Large corporate	**42.100**	40.744
- Wealth management	**22.170**	24.492
Total gross carrying amount	**64.460**	65.236
Less impairment allowance	**(21.804)**	(20.148)
Total carrying amount	**42.656**	45.088

The following table presents the Bank's exposure to forborne loans and advances to customers by geographical region. For this table, the Bank has allocated exposures to regions based on the country of residency/incorporation of counterparties.

	2020	2019
	€'000	€'000
Cyprus	**64.328**	64.860
Other European countries	**54**	152
Other countries	**78**	224
Total gross carrying amount	**64.460**	65.236
Less impairment allowance	**(21.804)**	(20.148)
Total carrying amount	**42.656**	45.088

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	**2020 €'000**	2019 €'000
Loans modified during the year with impairment allowance measured at an amount equal to lifetime ECL		
Carrying amount	**10.796**	11.020
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

In the year ended 31 December 2020, the gross carrying amount of loans previously modified for which the loan allowance has reverted to being measured at an amount equal to lifetime ECL amounted to €370 thousand (2019: €4.958 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 2020 and 2019 is presented below:

	2020 €'000	2019 €'000
Less than 50%	**586.821**	531.096
50%-70%	**326.861**	269.479
71%-80%	**76.192**	33.226
81%-90%	**40.068**	60.599
91%-100%	**92.064**	17.150
101%-120%	**23.312**	52.027
121%-150%	**11.761**	42.991
Greater than 150%	**95.667**	101.283
Total exposure	**1.252.746**	1.107.851
Average LTV	**76%**	74%

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 2020 Value of collateral received				
	Real Estate €'000	**Financial €'000**	**Other Collateral €'000**	**Total €'000**	**Guarantees received €'000**
Retail lending	36.491	6.870	-	43.361	-
Wholesale lending	1.119.900	564.526	177.404	1.861.830	13.489
Total	**1.156.391**	**571.396**	**177.404**	**1.905.191**	**13.489**

	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**

(d) Covid-19 relief ("moratoria") and government support measures

Substantial targeted fiscal and monetary measures have been put in place in an effort to support affected households and businesses domestically and forestall the possibility of worse outcome on the domestic economic activity. Among other, the following measures are noted:

- House of Representatives voted the suspension of credit facilities repayment (interest and capital) law for the period up to 31 December 2020 for business and households affected by the Covid-19 pandemic provided they exhibited arrears < 30 days as at February 2020.
- Special unemployment benefit to employees under the Plans for the complete or partial suspension of businesses' operations.
- Special sickness benefit, leave for the care of children etc.
- Temporary suspension of the obligation to pay VAT for reasons of business liquidity, without the imposition of any penalties until November 2020.
- Extension of the deadline for submission tax returns as well as the deadline for settlement of tax liabilities.
- Suspension of any eviction process until 31 May 2020.

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)

(d) Covid-19 relief ("moratoria") and government support measures (continued)

On 28 May 2020, the government announced a new support package for the economy which among other includes the following:

Participation of the Republic of Cyprus in the Pan-European Guarantee Fund
The Council of Ministers approved the participation of the Republic of Cyprus in the Pan-European Guarantee Fund. The beneficiaries will be Small and Medium Enterprises ("SMEs") so as to have access to sufficient liquidity in order to cope with the challenges created by the crisis. It is estimated that the businesses of Cyprus will be able to benefit by an amount of between €300 - €400 million.

Scheme for Providing Government Guarantees to the European Investment Bank for granting loans to Cypriot small and medium companies and enterprises of medium capitalisation
This has to do with the utilisation of an existing scheme which functions since 2014 by a financial agreement between the Republic of Cyprus and the EIB with the purpose of strengthening the Cyprus economy and financing SMEs. The Council of Ministers has decided the increase of the total amount for the Scheme by €500 million.

Liquidity amounting to €800 million for funding of SMEs through the Cyprus Entrepreneurship Fund ("CEF")
The CEF was established in 2013 by agreement between the EIB and the Republic of Cyprus with the aim of facilitating the funding of SMEs through the granting of loans on favorable terms by Banking Institutions.

Interest Subsidy Scheme for new business loans
The Scheme aims at improving the prospects of providing liquidity to enterprises, including self-employed which face a sudden lack of cash flow, through the subsidy of interest for new business loans.

Interest Subsidy Scheme for new housing loans
This Scheme aims at supporting households in raising loans for owner occupancy.

Subsidisation of very small and small enterprises and self-employed
The aim of the Scheme is to cover rents or other liabilities and running expenses.

Incentives Scheme for airline companies to support the tourism sector, amounting to €6,3 million
The aim of the Scheme is the recovery of the tourist flow and the strengthening of passenger traffic, in order to mitigate the consequences of the crisis on the tourism sector. The Scheme envisages the additional support of all airline companies for a period of seven months with a subsidisation of flights to Cyprus, covering 40%-50% plane capacity.

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)

(d) Covid-19 relief (“moratoria”) and government support measures (continued)

Reduction of the VAT rates from 9% to 5% for the period 1 July 2020 until 10 January 2021 in the sectors of tourist accommodation and catering
It is expected that the reduction will bring a benefit to sectors that have been hit more by the Covid-19 pandemic, in particular for the sectors of catering, hotels and tourist accommodation.

The gross carrying amount of facilities under moratorium as at 31 December 2020 was €999,8 million. It is noted that this was the last day of the 2020 moratorium, hence the subject amount exited the moratorium by 1 January 2021.

4.2.1.4 Debt securities

The movement in impairment allowance of investment securities in 2020 and 2019 is as follows:

	31 December 2020	
	Investment securities at FVOCI 12-month ECL €’000	**Investment securities at amortised cost 12-month ECL €’000**
Balance at 1 January	448	553
New financial assets purchased	937	202
Impact of ECL net remeasurement	(493)	(358)
Financial assets disposed during the year	(97)	(3)
Financial assets redeemed during the year	(22)	(2)
Balance at 31 December	**773**	**392**

	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**

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)

During the year, the impairment allowance of the investment securities of the Bank increased by €164 thousand, mainly due to new bonds purchases.

During 2019, 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.

The tables below present an analysis of debt securities by external credit rating agency designation at 31 December 2020 and 2019 based on Moody's ratings or their equivalent:

	31 December 2020		
	Investment securities at FVOCI €'000	**Investment securities at amortised cost €'000**	**Total €'000**
Aaa	119.812	-	**119.812**
Aa1 to Aa3	64.425	-	**64.425**
A1 to A3	77.862	-	**77.862**
Baa1 to Baa3	145.619	-	**145.619**
Ba1 to Ba3	215.528	362.807	**578.335**
Not rated	7.120	-	**7.120**
Gross carrying amount	**630.366**	**362.807**	**993.173**
Impairment allowance	-	(392)	**(392)**
Carrying amount	**630.366**	**362.415**	**992.781**

	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**
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**

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.

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

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

31 December 2020	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 gross carrying amount / nominal amount less imp. allowance €'000
Loans and advances to customers													
Retail lending:													
- Mortgage	11.092	-	-	-	-	-	-	-	-	-	-	-	**11.092**
- Consumer	22.149	4	17	(270)	-	-	-	-	-	-	-	-	**21.900**
- Affluent banking	31.311	1.124	374	(209)	188	-	-	-	220	-	-	-	**33.008**
- Credit cards	665	11	3	(6)	1	-	-	-	-	-	-	-	**674**
Wholesale lending:													
- Large corporate	701.465	120.298	49.085	(30.483)	318.760	16.992	-	(1.437)	29.160	1.243	1.187	(987)	**1.205.283**
- Wealth management	204.818	9.062	17.555	(10.176)	76.729	6.028	711	(781)	6.505	78	-	(6)	**310.523**
- International business banking	101.332	-	-	-	35.229	2	1.275	(1)	320.631	-	2	(2)	**458.468**
- Shipping	16.977	-	-	(1)	124.774	-	1.593	(1.605)	16.926	-	-	(1)	**158.663**
Total	**1.089.809**	**130.499**	**67.034**	**(41.145)**	**555.681**	**23.022**	**3.579**	**(3.824)**	**373.442**	**1.321**	**1.189**	**(996)**	**2.199.611**
Off-balance sheet items													
Financial guarantee contracts and other credit related commitments	131.470	4.500	143	(888)	6.004	2.147	-	(221)	1.900	-	-	-	**145.055**
Loan commitments	307.206	11.812	843	(1.384)	91.529	7.640	-	(221)	15.079	56	1	(34)	**432.527**
Total	**438.676**	**16.312**	**986**	**(2.272)**	**97.533**	**9.787**	**-**	**(442)**	**16.979**	**56**	**1**	**(34)**	**577.582**

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												
	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 gross carrying amount / nominal amount less imp. allowance €'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**

As at 31 December 2020, the carrying amount of the Bank's loans and advances to customers measured mandatorily at FVTPL amounted to €7.540 thousand (2019: €8.731), 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 2020				
	Multilateral development banks €'000	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets					
Balances with central banks	-	1.189.685	-	-	**1.189.685**
Due from credit institutions at AC	-	30	2.279.218	104.699	**2.383.947**
Due from credit institutions mandatorily at FVTPL	-	-	-	-	**-**
Derivative financial instruments	-	163	29	46	**238**
Investment debt securities at FVOCI	72.829	201.913	321.133	34.491	**630.366**
Investment debt securities at AC	-	362.807	-	-	**362.807**
Other investment securities mandatorily at FVTPL	-	1.934	255	-	**2.189**
Other assets	-	134	-	14	**148**
Gross carrying amount	**72.829**	**1.756.666**	**2.600.635**	**139.250**	**4.569.380**
Balances with central banks	-	14	-	-	**14**
Due from credit institutions at AC	-	-	23	22	**45**
Derivative financial instruments	-	-	-	-	**-**
Investment debt securities at AC	-	392	-	-	**392**
Other assets	-	-	-	-	**-**
Impairment allowance	**-**	**406**	**23**	**22**	**451**
Carrying amount	**72.829**	**1.756.260**	**2.600.612**	**139.228**	**4.568.929**

	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 mandatorily 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 at AC	-	-	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**

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

Eurobank Cyprus Ltd

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4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 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 2020

	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	-	-	-	-	11.092	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**11.092**
- Consumer	18.388	1	15	(269)	3.760	3	3	(1)	-	-	-	-	-		-	-	-	-	-	-	**21.900**
- Affluent banking	49	-	-	-	31.671	1.124	373	(209)	-	-	-	-	-	-	-	-	-	-	-	-	**33.008**
- Credit cards	89	3	1	(3)	564	8	2	(3)	4	-	-	-	-	-	-	-	9	-	-	-	**674**
Wholesale lending:																					
- Large corporate	871.445	135.241	42.075	(24.974)	14.674	282	5.349	(4.653)	39.962	391	1.696	(1.618)	122.414	2.621	401	(1.046)	888	-	751	(616)	**1.205.283**
- Wealth management	143.186	10.170	10.236	(6.699)	141.274	4.996	8.030	(4.262)	1.700	-	-	(1)	54	-	-	(1)	1.840	-	-	-	**310.523**
- International business banking	400.757	-	-	-	5.381	2	1.277	(3)	7	-	-	-	51.047	-	-	-	-	-	-	-	**458.468**
- Shipping	158.671	-	1.593	(1.607)	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**158.663**
Total	**1.592.585**	**145.415**	**53.920**	**(33.552)**	**208.422**	**6.415**	**15.034**	**(9.131)**	**41.673**	**391**	**1.696**	**(1.619)**	**173.515**	**2.621**	**401**	**(1.047)**	**2.737**	**-**	**751**	**(616)**	**2.199.611**

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 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**

As at 31 December 2020, the carrying amount of the Bank's loans and advances to customers measured mandatorily at FVTPL amounted to €7.540 thousand (2019: €8.731 thousand) and was included in the wholesale lending portfolio in commerce and services industry 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)

(b) Industry sectors (continued)

31 December 2020

	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 less imp. allowance
	€'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	93.652	4.874	140	(715)	3.762	15	2	(16)	25.133	1.600	-	(345)	16.501	158	1	(33)	326	-	-	-	**145.055**
Loan commitments	283.510	16.155	774	(994)	42.554	414	70	(121)	14.882	292	-	(201)	71.956	2.647	-	(310)	912	-	-	(13)	**432.527**
Total	**377.162**	**21.029**	**914**	**(1.709)**	**46.316**	**429**	**72**	**(137)**	**40.015**	**1.892**	**-**	**(546)**	**88.457**	**2.805**	**1**	**(343)**	**1.238**	**-**	**-**	**(13)**	**577.582**

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 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 less imp. allowance
	€'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**

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 2020

	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	1.189.685	-	-	-	-	-	-	-	**1.189.685**
Due from credit institutions at AC	-	-	-	2.383.947	-	-	-	-	**2.383.947**
Derivative financial instruments	-	-	173	14	3	-	2	46	**238**
Investment debt securities at FVOCI	-	359.745	-	115.344	-	-	-	155.277	**630.366**
Investment debt securities at AC	-	362.807	-	-	-	-	-	-	**362.807**
Other investment securities mandatorily at FVTPL	-	-	-	1.934	-	12	243	-	**2.189**
Other assets	-	-	134	-	-	-	-	14	**148**
Gross carrying amount	**1.189.685**	**722.552**	**307**	**2.501.239**	**3**	**12**	**245**	**155.337**	**4.569.380**
Balances with central banks	14	-	-	-	-	-	-	-	**14**
Due from credit institutions at AC	-	-	-	45	-	-	-	-	**45**
Investment debt securities at AC	-	392	-	-	-	-	-	-	**392**
Other assets	-	-	-	-	-	-	-	-	**-**
Impairment allowance	**14**	**392**	**-**	**45**	**-**	**-**	**-**	**-**	**451**
Carrying amount	**1.189.671**	**722.160**	**307**	**2.501.194**	**3**	**12**	**245**	**155.337**	**4.568.929**

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 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 mandatorily 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 at AC	-	-	-	44	-	-	-	-	**44**
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**

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 central banks of €1.189.671 thousand at 31 December 2020 (2019: €877.322 thousand), which are not rated. The Central Bank of Cyprus is not rated by itself. The rating of Republic of Cyprus, which was BBB- as at 31 December 2020, can be used as an approximation.

Investment securities – equity shares

The Bank held equity shares of €255 thousand at 31 December 2020 (2019: €248 thousand) which are not rated.

Investment securities – UCIT funds

The Bank held UCIT funds of €1.934 thousand at 31 December 2020 (2019: €1.987 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.

The Bank has also authorised the Executive Committee to discuss the risks associated with the IBOR reform in coordination with the Group.

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 2020 and 2019

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 1D. 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 2020 and 2019 (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:

	2020 **€'000**	2019 €'000
Interest Rate Risk	**517**	766
Foreign Exchange Risk	**73**	27
Equities Risk	**12**	14
Total VaR	**516**	768

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 change of value effect for the Bank's loans and deposits portfolio after a shock of 1% is €1.498 thousand (2019: €2.550 thousand) whereas the EVE effect is 1,24% (2019: 1,74%). 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 2020 and 2019 (continued)

	31 December 2020				
	less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	€'000	€'000	€'000	€'000	€'000
Investment securities	**32.855**	**74.763**	**269.949**	**434.323**	**142.597**
Fixed coupon bonds	14.261	56.715	269.949	434.323	142.597
Variable coupon bonds	18.594	18.048	-	-	-
Derivative financial instruments[1]	**(43.203)**	**9**	**2**	**90.000**	**(90.000)**

	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)**

[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, the net position is zero as they are back to back with Eurobank S.A.

(ii) Sensitivity Analysis for 2020 and 2019

	31 December 2020			31 December 2019		
	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	(6.055)	(8.575)	(14.630)	(8.140)	(7.460)	(15.600)
Equities/Funds: -10% decrease on prices	(219)	-	(219)	(223)	-	(223)
Foreign exchange: -10% depreciation of functional currency over foreign currencies	84	-	84	(35)	-	(35)

Eurobank Cyprus Ltd

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)

Foreign exchange risk

The following table presents the Bank's exposure to foreign currency exchange risk as at 31 December 2020 and 2019:

	31 December 2020						
	USD €'000	**GBP €'000**	**CHF €'000**	**RUB €'000**	**Other €'000**	**Euro €'000**	**Total €'000**
ASSETS							
Cash and balances with central banks	391	385	34	-	2	1.195.576	1.196.388
Due from credit institutions	524.416	4.597	894	55.764	7.478	1.790.753	2.383.902
Derivative financial instruments	1.212	2	-	-	-	(976)	238
Loans and advances to customers	271.393	258.089	14.850	-	6.729	1.648.550	2.199.611
Investment securities	279.483	-	-	-	-	715.487	994.970
Investments in subsidiaries	-	-	-	-	-	11	11
Property, plant and equipment	85	-	-	-	-	29.678	29.763
Intangible assets	-	-	-	-	-	13.910	13.910
Deferred tax assets	-	-	-	-	-	1.125	1.125
Other assets	22	52	-	13	-	1.216	1.303
Total assets	1.077.002	263.125	15.778	55.777	14.209	5.395.330	**6.821.221**
LIABILITIES							
Due to central banks	-	-	-	-	-	548.541	548.541
Due to credit institutions	13.085	-	7	25.934	68	103.255	142.349
Derivative financial instruments	58	2	-	-	-	53.155	53.215
Due to customers	1.638.223	155.014	14.185	29.549	7.857	3.639.301	5.484.129
Current tax liabilities	-	-	-	-	-	1.573	1.573
Deferred tax liabilities	-	-	-	-	-	438	438
Other liabilities	1.517	180	-	13	138	62.426	64.274
Total liabilities	1.652.883	155.196	14.192	55.496	8.063	4.408.689	**6.294.519**
Equity	3.833	-	-	-	-	522.869	**526.702**
Net on balance sheet position	(579.714)	107.929	1.586	281	6.146	463.772	**-**
Derivative forward foreign exchange position	579.741	(107.929)	(1.589)	(281)	(6.146)	(463.796)	-
Total foreign exchange position	**27**	**-**	**(3)**	**-**	**-**	**(24)**	**-**

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Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Foreign exchange risk (continued)

	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	38.604	5.208	1.981.428	2.407.637
Derivative financial instruments	1.759	-	-	-	7	(1.168)	598
Loans and advances to customers	341.320	245.089	14.456	-	3.637	1.492.926	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	1.058.793	256.598	15.477	38.646	8.854	4.925.278	**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
Current tax liabilities	-	-	-	-	-	1.322	1.322
Deferred tax liabilities	-	-	-	-	-	97	97
Other liabilities	1.881	121	-	23	159	61.357	63.541
Total liabilities	1.853.207	196.158	26.613	37.257	24.756	3.671.518	**5.809.509**
Equity	3.375	-	-	-	-	490.762	**494.137**
Net on balance sheet position	(797.789)	60.440	(11.136)	1.389	(15.902)	762.998	**-**
Derivative forward foreign exchange position	797.795	(60.440)	11.133	(1.389)	15.891	(762.990)	-
Total foreign exchange position	**6**	**-**	**(3)**	**-**	**(11)**	**8**	**-**

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:
- The regulatory liquidity gap report along with the regulatory liquidity ratios;
- Stress test scenarios. These scenarios evaluate the impact of a number of systemic stress events on the Bank's liquidity position;
- Liquidity coverage ratios (LCR) estimation (Basel III new regulatory ratio).

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 2020 and 2019, based on their contractual undiscounted cash flows. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

31 December 2020

	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	1.196.388	-	-	-	**1.196.388**
Due from credit institutions	1.636.460	746.458	-	-	**2.382.918**
Loans and advance to customers	580.874	65.263	260.782	1.632.622	**2.539.541**
Investment securities – debt securities	16.150	56.975	296.093	660.455	**1.029.673**
Investment securities – other equity	2.189	-	-	-	**2.189**
Derivative financial instruments	21	9	8	200	**238**
Other assets	43	-	-	105	**148**
	3.432.125	**868.705**	**556.883**	**2.293.382**	**7.151.095**

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**

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 2020

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 central banks	-	-	548.541	-	548.541
- Due to credit institutions	94.253	11.957	2.787	33.750	**142.747**
- Due to customers	4.532.274	344.108	607.649	1.253	**5.485.284**
- Lease liabilities	198	400	1.823	19.548	**21.969**
- Other liabilities	38.574	1.008	1.130	-	**40.712**
	4.665.299	**357.473**	**1.161.930**	**54.551**	**6.239.253**
Derivative financial instruments:	43.233	-	5	9.977	**53.215**

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	**Total €'000**
Financial guarantee contracts and other credit related commitments	146.164	-	**146.164**
Loan commitments	434.166	-	**434.166**
Capital expenditure	5.299	158	**5.457**
	585.629	**158**	**585.787**

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**

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:

a) Cash and balances with central banks in excess of Mandatory Reserve Requirement (2020: €1.141.799 thousand vs 2019: €831.384 thousand);
b) Eligible bonds and other financial assets for collateral purposes (2020: €1.949.861 thousand vs 2019: €2.838.530 thousand); and
c) Current accounts with credit institutions and interbank placings maturing within one month (2020: €193.811 thousand vs 2019: €105.744 thousand).

There is no significant impact on the Bank's liquidity position due to Covid-19. The Bank's liquidity buffers are well above the minimum regulatory requirements and allow the Bank to absorb liquidity shocks.

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.

During 2020 and due to the Covid-19 pandemic, the Bank had to adapt its operating model to the new conditions, in order to protect its customers and staff members. Despite these significant changes which involved teleworking and use of various communication channels, the Bank carried out its business activities without any serious disruptions and without incurring significant operational losses. Overall, the Operational Risk management framework functioned in an efficient way mitigating any impact from operational risks.

4.2.5 Interest Rate Benchmark reform – IBOR

Following the financial crisis, global regulators undertook a fundamental review of major interest rate benchmarks and convened working groups in various jurisdictions to identify and promote the use of risk-free reference rates ("RFRs") based on liquid underlying market transactions, as alternatives to the existing Interbank Offered Rates ("IBORs"). The Working Group on Euro Risk Free Rates, a private sector group, set up by the European Central Bank ("ECB"), together with the Financial Services and Markets Authority, the European Securities and Markets Authority and the European Commission (the "Working Group on Euro Risk Free Rates") has undergone work for the facilitation of the transition of the Euro Overnight Index Average rate ("EONIA") to the alternative risk –free euro Short Term Rate (€STR), as a result of EONIA not being compliant with the EU Benchmark Regulation (hereinafter, "BMR") and, more recently, for the identification of the EURIBOR fallback rates, in accordance with the requirements of the BMR. According to the European Money Market Institute ("EMMI"), the administrator of EONIA and EURIBOR, the permanent cessation of EONIA will occur on 3 January 2022.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.5 Interest Rate Benchmark reform – IBOR (continued)

In other jurisdictions, the respective working groups have set-up alternative risk free rates in place of the overnight LIBOR rates. In March 2021, UK Financial Conduct Authority ("FCA"), the regulatory supervisor of ICE Benchmark Administration ("IBA") which is the administrator of LIBOR, announced that all non USD LIBOR rates and the 1-week and 2-months USD LIBOR rates will permanently cease at the end of 2021, while the remaining USD LIBOR rates will permanently cease immediately after June 2023.

The Bank has established an internal Benchmark Reform Working Group (the "BR Working Group"), led by representatives from the business units across the Bank including Global Markets, Risk, and with the support of Legal, Organosis and Finance Divisions, in order to manage the transition, to mitigate any related risks and comply with the regulatory requirements of the EU Benchmarks Regulation (BMR).

The main objectives of the BR Working Group include:

- monitoring of the regulatory, market and industry developments on the Benchmark reform and preparation of the action plans for an orderly transition to the new RFRs,
- assessment and evaluation of implications to the business activity, including proper integration of the new methodologies to calculate the alternative benchmark rates in the core systems, transition of legacy interbank and clients' contracts to the new alternative benchmark rates, or incorporation of fallback provisions as may be required or recommended by the regulatory authorities of financial markets and industry international associations, in existing and newly originated floating rate financial instruments indexed to benchmark rates and appropriate modification of customers' contracts,
- communication to all stakeholders of changes resulting from the IBOR Reform, and
- regular reporting to the Assets Liabilities Committee and to the Board Risk Committee when required, in order to assess developments and recommend or approve actions relevant to the Benchmark reform.

The Bank has exposure to a significant number of IBOR-linked (EURIBOR, USD LIBOR, CHF LIBOR and EONIA) financial instruments such as derivatives, debt instruments, loans and credit facilities and deposit contracts. Since these benchmark rates are subject to reform there is uncertainty regarding the precise methods of transition to the new benchmarks, as well as the necessary contractual modifications of the financial instruments linked to such benchmarks. Accordingly, the respective transition process to RFRs pose a variety of risks for the Bank that include operational, legal and conduct risks considering the compressed timeline for the transition and the large scale of the legacy contracts that need to be modified as well as increases some financial risk in case that markets are disrupted due to the IBOR reform. Additionally, the existing uncertainty on the amount and timing of the cash flows indexed to IBOR could have consequences on the financial instruments' accounting treatment, mainly relating to hedge accounting and hedge designations when existing uncertainties are no longer present.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.5 Interest Rate Benchmark reform – IBOR (continued)

The Bank continues to assess the potential transition risk impacts and adjusts its implementation plans accordingly in order to achieve mitigation of the risks resulting from the transition to the RFRs.

As of 31 December 2020, the Bank is not exposed to interest rate benchmarks within its hedge accounting relationships that mature after 31 December 2021 or 30 June 2023 for USD LIBOR hedges, when the transition to the new RFRs is expected to be completed.

Regarding EURIBOR rate, which is designated as a critical benchmark under the BMR, and it is BMR compliant since July 2019, its calculation is based on the new “hybrid methodology”. The sustainability of EURIBOR depends on whether the panel of contributing banks continues to support it in the future and there is sufficient activity in its underlying market. Consequently, EURIBOR can continue to be used as a benchmark rate in new and legacy contracts for the foreseeable future and related fair value hedges are not expected to be directly affected by the Benchmark Reform. However, financial instruments referencing EURIBOR need to incorporate new or improved fallback provisions in order to reduce potential uncertainties in the event of EURIBOR’s potential cessation. The process for the determination of said fallbacks is in progress, under the Working Group on Euro Risk Free Rates.

The Bank is closely monitoring, evaluating and reviewing the work of international industry associations such as ISDA aimed to guide the benchmark transition process and facilitate compliance to the BMR through the use of “standardised” market solutions and facilitating the bilateral negotiation process across market participants, while reducing the risk of non-orderly transition. In this context, the Bank has adhered to the ISDA 2018 Benchmarks Supplement Protocol as well as the ISDA 2020 IBOR Fallbacks Protocol in Q4 2020.

Furthermore, the Bank is taking actions to mitigate the risks, which include new product development and a client outreach programme to ensure readiness to migrate and explain the changes and outcomes arising from the transition to clients.

The Bank will continue to monitor the market developments and regulatory guidance relating to the Benchmark 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 2020, the Bank had obtained through reverse repurchase agreements securities of face value of €2.015.540 thousand and fair value €2.205.188 thousand (2019: €2.210.994 thousand and €2.344.456 thousand), out of which reverse repurchase agreements with face value €533.515 thousand and fair value €562.621 thousand (2019: €402.850 thousand and €422.422 thousand) have been lent out through securities lending agreements.

As at 31 December 2020, the cash value of the assets transferred by the Bank through repurchase agreements amounted to €30 million (2019: €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:

	2020	2019
	€'000	€'000
Ordinary shareholders' equity	**526.702**	494.137
Less: other regulatory adjustments	**(14.027)**	(8.540)
Total Tier 1 capital	**512.675**	485.597
Total regulatory capital	**512.675**	485.597
Risk Weighted Assets	**1.956.516**	1.936.394

	2020	2019
	%	%
Ratios:		
Core Tier 1	**26,2**	25,1
Tier 1	**26,2**	25,1
Capital Adequacy Ratio	**26,2**	25,1

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

In response to the Covid-19 outbreak, on 12 March 2020, the ECB announced a number of measures to ensure that its directly supervised institutions can continue to fulfil their role in funding the real economy (note 2). Specifically, banks are allowed, among others, to operate below the level of capital defined by the Pillar II Guidance and, without prejudice to the restrictions set out in CRD IV, the Combined Buffer Requirement (i.e. Capital Conservation Buffer, Countercyclical Capital Buffer, Other Systemically Important Institutions Buffer) until at least the end of 2022, as per the latest ECB's communication issued on 28 July. Banks are also allowed to partially use capital instruments that do not qualify as CET1 capital (i.e. Additional Tier 1 or Tier 2 instruments) to meet the Pillar II Requirement (P2R).

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 2020, 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 (OCR) of at least 13,25% (consisting of the TSCR plus the Capital Conservation Buffer of 2,5% and the Other Systemically Important Institutions Buffer of 0,50%). Moreover, based on the SREP decision, the ECB expects the Bank to adhere to a Pillar 2 guidance of 1,5%, which is over and above the OCR, bringing the total OCR and Pillar 2 guidance to 14,75%.

Furthermore, on 24 June 2020 the Regulation 2020/873 (CRR quick fix) was adopted by the Council of the European Union and the European Parliament. This Regulation introduced some changes in the CRR to maximise the ability of banks to continue lending during the Covid-19 pandemic. These changes include among others:

- Extension by two years of the transitional arrangements for IFRS 9 and further relief measures, allowing banks to add back to their regulatory capital any increase in new provisions for expected losses that they recognise in 2020 and 2021 for their financial assets, which have not been defaulted. Accordingly, the relief applied for 2022 is 75%, for 2023 50% and for 2024 25%.
- Earlier application of the revised supporting factors for loans to SMEs and certain infrastructure projects' companies, which allows for a more favorable prudential treatment of these exposures.
- A preferential treatment of exposures to public debt issued in the currency of another Member State and flexibility regarding the large exposures limit.
- Changes on the application of prudential treatment of software assets as amended by CRR II came into force in December 2020 advancing the implementation 2020 instead of 2021.

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.

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

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 2020 amounts to 8,0% (2019: 9,4%), according to the transitional definition of Tier 1 capital, which is significantly over the 3% minimum threshold applied by the competent authorities.

The Pillar III Disclosures Report (unaudited) of the Bank with respect to the requirements of the Capital Requirements Regulation (EU) No 575/2013 as amended by CRR II applicable as at the reporting date, is published on the Bank's website www.eurobank.com.cy

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.

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.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

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 2020 and 2019 is presented in the following tables:

	At 31 December 2020			
	Level 1 €'000	**Level 2 €'000**	**Level 3 €000**	**Total €'000**
Financial assets measured at fair value on a recurring basis:				
Derivatives for which hedge accounting is not applied/held for trading	-	238	-	**238**
Loans and advances to customers mandatorily at FVTPL	-	-	7.540	**7.540**
Investment securities at FVOCI	407.064	223.302	-	**630.366**
Investment securities mandatorily at FVTPL	2.177	-	12	**2.189**
Total financial assets measured at fair value on a recurring basis	**409.241**	**223.540**	**7.552**	**640.333**
Financial liabilities measured at fair value on a recurring basis:				
Derivative financial instruments designated as fair value hedges	-	9.920	-	**9.920**
Derivatives for which hedge accounting is not applied/held for trading	-	43.295	-	**43.295**
Total financial liabilities measured at fair value on a recurring basis	**-**	**53.215**	**-**	**53.215**

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 2019			
	Level 1 €'000	Level 2 €'000	Level 3 €000	Total €'000
Financial assets measured at fair value on a recurring basis:				
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 mandatorily at FVTPL	2.223	-	12	**2.235**
Total financial assets measured at fair value on a recurring basis	**510.398**	**31.917**	**8.743**	**551.058**
Financial liabilities measured at fair value on a recurring basis:				
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 on a recurring basis	**-**	**16.063**	**-**	**16.063**

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

	31 December 2020		
	Loans and advances to customers mandatorily at FVTPL €'000	Investment securities mandatorily at FVTPL €'000	Total €'000
Balance at 1 January	8.731	12	**8.743**
Repayments	(1.395)	-	**(1.395)**
Interest income	373		**373**
Losses on changes in fair value	(169)	-	**(169)**
Balance at 31 December	**7.540**	**12**	**7.552**

	31 December 2019		
	Loans and advances to customers mandatorily at FVTPL €'000	Investment securities mandatorily at FVTPL €'000	Total €'000
Balance at 1 January	11.597	12	**11.609**
Repayments	(3.445)	-	**(3.445)**
Interest income	365	-	**365**
Gains on changes in fair value	214	-	**214**
Balance at 31 December	**8.731**	**12**	**8.743**

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)

In measuring loans and advances to customers categorised as Level 3 in the fair value hierarchy, the Bank uses the income approach that is a present value technique. The income approach converts future amounts of contractual cash flow to present value by using a non-credit risk adjusted discount rate, which is built up of the following components: Risk-free interest rate, Funding costs spread, Minimum Equity Requirements costs, Loans' servicing costs and Loans' fees and commissions income. A reasonably possible increase/decrease in the discount rates by +5%/-5% would increase/decrease the total fair value measurement by €6 thousand (2019: €16 thousand).

Changes in fair values are recognised as gains or losses in the income statement and included in "net gains from other financial instruments". Interest income is included in "other interest income" in the income statement.

All gains or losses arising from changes in fair values are unrealised.

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.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Valuation processes and techniques (continued)

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.

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.

The effect of Covid-19 pandemic to the credit spreads and market yields that increased significantly in March 2020 was quickly reversed due to the swift and large response of the global central banks.

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

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 2020				
	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	-	1.189.671	-	**1.189.671**	**1.189.671**
Due from credit institutions	-	2.383.902	-	**2.383.902**	**2.383.902**
Loans and advances to customers	-	-	2.187.072	**2.187.072**	**2.192.071**
Investment securities at AC	391.053	-	-	**391.053**	**362.415**
Other assets	-	148	-	**148**	**148**
	391.053	**3.573.721**	**2.187.072**	**6.151.846**	**6.128.207**
Financial liabilities not carried at fair value:					
Due to credit institutions	-	142.349	**-**	**142.349**	**142.349**
Due to customers	-	5.484.129	**-**	**5.484.129**	**5.484.129**
Other liabilities	-	60.907	**-**	**60.907**	**60.907**
	-	**5.687.385**	**-**	**5.687.385**	**5.687.385**

	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)

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:

- 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;
- 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.

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 2020 and 2019, the Bank did not make any transfers into and out of the fair value hierarchy levels.

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 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities

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

- are offset in the Bank's balance sheet according to IAS 32 'Financial Instruments: Presentation' criteria; or
- 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 2020 and 31 December 2019:

	31 December 2020					
				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	64.953	-	64.953	-	64.953	-
Settlement balances with credit institutions	16.487	-	16.487	-	16.487	-
Loans and advances to customers	50.722	50.722	-	-	-	-
Reverse repurchase agreements receivables	2.127.288	-	2.127.288	2.127.288	-	-
Derivative financial instruments	7	-	7	-	7	-
Total assets subject to offsetting, master netting and similar arrangement	**2.259.457**	**50.722**	**2.208.735**	**2.127.288**	**81.447**	**-**
Liabilities						
Deposits from credit institutions	61.611	-	61.611	-	28.248	33.363
Settlement balances with credit institutions	-	-	-	-	-	-
Due to customers	50.722	50.722	-	-	-	-
Derivative financial instruments	53.199	-	53.199	-	53.199	-
Total liabilities subject to offsetting, master netting and similar arrangement	**165.532**	**50.722**	**114.810**	**-**	**81.447**	**33.363**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

	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**

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the Balance Sheet on the following bases:

- assets and liabilities with credit institutions: amortised cost;
- loans and advances to customers: amortised cost;
- reverse repurchase agreements receivables; amortised cost;
- derivative financial instruments: fair value; and
- due to customers: amortised cost.

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 2020

	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	64.953	Due from credit institutions	155.972	91.019	*14*
Settlement balances with credit institutions	16.487	Due from credit institutions	100.642	84.155	*14*
Loans and advances to customers	-	Loans and advances to customers	2.199.611	2.199.611	*16*
Reverse repurchase agreements receivables	2.127.288	Due from credit institutions	2.127.288	-	*14*
Derivative financial instruments	7	Derivative financial instruments	238	231	*15*
Types of financial liabilities:					
Deposits from credit institutions	61.611	Due to credit institutions	92.448	30.837	*23*
Settlement balances with credit institutions	-	Due to credit institutions	49.901	49.901	*23*
Due to customers	-	Due to customers	5.484.129	5.484.129	*24*
Derivative financial instruments	53.199	Derivative financial instruments	53.215	16	*15*

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	*14*
Settlement balances with credit institutions	5.529	Due from credit institutions	32.481	26.952	*14*
Loans and advances to customers	-	Loans and advances to customers	2.097.428	2.097.428	*16*
Reverse repurchase agreements receivables	2.281.872	Due from credit institutions	2.281.872	-	*14*
Derivative financial instruments	577	Derivative financial instruments	598	21	*15*
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	*15*

5 Net interest income

	2020 €'000	2019 €'000
Interest income		
Interest income calculated using the effective interest method		
Interest from amounts due from credit institutions - *measured at amortised cost*	**6.765**	18.584
Interest from loans and advances to customers - *measured at amortised cost*	**65.217**	69.741
Interest from investment securities		
- measured at amortised cost	**9.292**	9.050
- measured at FVOCI	**10.559**	14.144
Negative interest on financial liabilities	**42**	-
Total interest income calculated using the effective interest method	**91.875**	111.519
Other interest income		
Interest from amounts due from credit institutions - *measured at FVTPL*	**333**	-
Interest from derivative financial instruments - *measured at FVTPL*	**8.941**	10.122
Interest from loans and advances to customers - *measured mandatorily at FVTPL*	**373**	365
Interest from investment securities - *measured mandatorily at FVTPL*	**1**	3
Total other interest income	**9.648**	10.490
Interest expense		
Interest expense calculated using the effective interest method		
Interest on due to credit institutions - *measured at amortised cost*[1]	**(3.315)**	(3.231)
Interest on due to customers - *measured at amortised cost*	**(19.471)**	(35.810)
Negative interest on financial assets	**(2.321)**	(3.719)
Interest on lease liabilities (note 28)	**(257)**	(319)
Other interest expense	**(9)**	(12)
Total interest expense calculated using the effective interest method	**(25.373)**	(43.091)
Other interest expense		
Interest on derivative financial instruments - *measured at FVTPL*	**(944)**	(685)
Total other interest expense	**(944)**	(685)
Net interest income	**75.206**	78.233

[1]For the year 2020, it includes the benefit attached to the TLTRO III program (note 22).

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities:

	2020 €'000	2019 €'000
Financial assets measured at amortised cost	**6.120.905**	5.708.273
Financial assets measured at FVOCI	**630.366**	537.184
Total	**6.751.271**	6.245.457
Financial liabilities measured at amortised cost	**6.175.019**	5.728.486

6 Net banking fee and commission income

	2020 **€'000**	2019 €'000
Banking fee and commission income		
Bank transfer commissions	**7.919**	8.676
Other fees and commissions	**22.823**	23.608
Total banking fee and commission income	**30.742**	32.284
Banking fee and commission expense		
Fees on lien agreements (note 32)	**(699)**	(1.391)
Other fees and commissions	**(4.457)**	(4.821)
Total banking fee and commission expense	**(5.156)**	(6.212)
Net banking fee and commission income	**25.586**	26.072

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:

	2020 **€'000**	2019 €'000
Lending related activities	**2.492**	3.424
Wealth management	**4.279**	4.305
Network and other transactional activities	**23.971**	24.555
Total banking fee and commission income	**30.742**	32.284
Fee and commission expense	**(5.156)**	(6.212)
Net banking fee and commission income	**25.586**	26.072

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*
  Revenue 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). Servicing fees are based on fixed rates reviewed annually by the Bank.
  Revenues from transaction-based fees (e.g. foreign currency transactions, overdraft facilities, etc.) are recognised (i.e. charged to the customer's account) at the point in time when the transaction 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*
  Fees from these services 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. Fees from wealth management services, including safekeeping of assets and asset management services amount to €880 thousand (2019: €1.116 thousand).

The net fee and commission income presented above includes income of €30.187 thousand (2019: €31.847 thousand) and expense of €5.156 thousand (2019: €6.208 thousand) related to financial assets and financial liabilities not measured at FVTPL.

7 Net trading (loss)/income

	2020	2019
	€'000	€'000
Net loss from the ineffective portion of derivatives in qualifying hedging relationships	**(59)**	(114)
Net (loss)/income on derivative financial instruments (no hedge accounting)	**(39)**	220
	(98)	106

8 Net gains from other financial instruments

	2020	2019
	€'000	€'000
Net gains on disposal of investment securities at FVOCI:		
– Debt securities, Cyprus government bonds	**8.262**	1.360
Net losses on disposal of investment securities at amortised cost	**(4)**	-
Net gainson revaluation of investment securities mandatorily at FVTPL:		
– Equity shares	**7**	131
– UCIT funds	**28**	73
Net (losses)/gains of loans and advances to customers mandatorily at FVTPL	**(169)**	214
Reversal of impairment allowance on disposal of investment securities measured at FVOCI	**100**	-
Net gains from investment securities	**8.224**	1.778

During the year ended 31 December 2020, the Bank sold government bonds measured at amortised cost (2019: nil). These sales were made because the financial assets no longer met the Bank's investment policy due to a deterioration in their credit risk. The carrying amounts of the financial assets sold and the losses arising from the derecognition at 31 December 2020 were €20.001 thousand (2019: €nil) and €4 thousand (2019: €nil), respectively.

9 Staff costs

	2020	2019
	€'000	€'000
Salaries and other related costs	**16.818**	15.314
Social insurance and other costs	**3.307**	3.197
Directors' fees and remuneration (note 32)	**1.098**	1.055
Retirement benefit costs – defined contributions plan	**1.505**	1.228
	22.728	20.794

The average number of employees of the Bank during the year 2020 was 417 (2019: 390).

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.

10 Other operating expenses

	2020 €'000	2019 €'000
Expenses relating to short term leases and other related maintenance expenses	**168**	351
Repairs and maintenance	**3.386**	2.551
Auditors' remuneration for statutory audit	**149**	119
Auditors' remuneration for other assurance engagements	**17**	64
Auditors' remuneration for non-assurance engagements	**4**	35
Professional fees	**819**	643
Advertising and promotion	**848**	1.199
Other administrative expenses	**6.651**	6.251
	12.042	11.213

11 Other impairment allowances and provisions

	2020 €'000	2019 €'000
Provisions on operational risk events	**62**	58
Impairment allowance/(reversal of impairment allowance) on investment securities at FVOCI	**425**	(284)
(Reversal of impairment allowance)/impairment allowance on investment securities at AC	**(161)**	7
Impairment allowance/(reversal of impairment allowance) on due from credit institutions	**17**	(50)
Impairment allowance on balances with central banks	**6**	-
Impairment allowance on securities lending	**619**	-
	968	(269)

12 Income tax expense

	2020 €'000	2019 €'000
Current tax:		
- Corporation tax	**6.077**	7.360
- Withholding tax	**718**	660
Total current tax	**6.795**	8.020
Deferred tax (credit)/charge	**(784)**	125
Total income tax expense	**6.011**	8.145

12 Income tax expense (continued)

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

	2020	2019
	€'000	€'000
Profit before tax and government levies	**52.443**	58.987
Tax calculated at the applicable corporation tax rate of 12,5%	**6.555**	7.373
Tax effect of expenses not deductible for tax purposes	**1.686**	1.197
Tax effect of allowances and income not subject to tax	**(2.163)**	(1.210)
Withholding tax	**717**	660
Deferred tax (credit)/charge	**(784)**	125
Income tax expense	**6.011**	8.145

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 (2019: €nil).

The Bank closely monitors and constantly assesses the developments on the Covid-19 front and their effect on the assumptions used in its plans and the projections for future profitability and will continue to update its estimates accordingly.

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.

12 Income tax expense (continued)

Other taxation related matters:

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.

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:

2020				**Balance at 31 December**	
	Net balance at 1 January €'000	**Recognised in profit or loss €'000**	**Net €'000**	**Deferred tax assets €'000**	**Deferred tax liabilities €'000**
Property, plant and equipment and intangible assets	(97)	(341)	(438)	-	(438)
Allowance for expected credit losses	-	1.125	1.125	1.125	-
Tax assets/(liabilities)	**(97)**	**784**	**687**	**1.125**	**(438)**

2019				**Balance at 31 December**	
	Net balance at 1 January €'000	**Recognised in profit or loss €'000**	**Net €'000**	**Deferred tax assets €'000**	**Deferred tax liabilities €'000**
Property, plant and equipment and intangible assets	28	(125)	(97)	-	(97)
Tax assets/(liabilities)	**28**	**(125)**	**(97)**	**-**	**(97)**

13 Cash and balances with central banks

	2020 **€'000**	2019 €'000
Cash in hand	**6.717**	9.554
Balances with central banks	**1.189.671**	877.322
Total	**1.196.388**	886.876
of which:		
Mandatory deposits with central banks	**54.589**	55.492

As at 31 December 2020, the impairment allowance on balances with central banks within the scope of IFRS 9 impairment requirements amounted to €14 thousand (2019: €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.

14 Due from credit institutions

	2020 **€'000**	2019 €'000
Due from credit institutions at amortised cost:		
Reverse repurchase agreements receivables (1)	**2.127.288**	2.281.872
Placements with credit institutions (2)	**155.972**	90.974
Settlement balances with credit institutions	**100.642**	32.481
	2.383.902	2.405.327
Due from credit institutions mandatorily at FVTPL:		
Placements with credit institutions (2)	**-**	2.310
Total due from credit institutions	**2.383.902**	2.407.637
Maturity analysis:		
Current:		
- on demand up to 7 days	**422.838**	246.246
- between 7 days and three months	**1.961.064**	2.159.081
	2.383.902	2.405.327
Non-current	**-**	2.310
	2.383.902	2.407.637

(1) Amounts due from credit institutions include reverse repurchase agreements of €2.127.288 thousand (2019: €2.281.872 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2020, approximately €1.767.766 thousand (2019: €2.182.204 thousand), are fully secured by bonds which are ECB eligible and rated as investment grade.

14 Due from credit institutions (continued)

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

As at 31 December 2020, the impairment allowance on amounts due from credit institutions at amortised cost within the scope of IFRS 9 impairment requirements amounted to €45 thousand (2019: €44 thousand).

15 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:

15 Derivative financial instruments (continued)

	31 December 2020			
	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	1.817	3	1.817	3
- Currency forward and spot deals	13.383	40	12.584	18
- Interest rate swaps	3.667	47	2.445	58
- Currency swaps	694.379	-	737.592	43.216
- Cap and floor swaps	16.552	148	16.552	-
		238		**43.295**
Derivatives designated as fair value hedges				
- Interest rate swaps	-	-	90.000	9.920
		-		**9.920**
Total derivatives assets/liabilities		**238**		**53.215**

	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**

	Fair Values			
	2020		2019	
	Assets €'000	**Liabilities €'000**	Assets €'000	Liabilities €'000
Maturity analysis:				
Current	**38**	**43.238**	587	10.313
Non-current	**200**	**9.977**	11	5.750
	238	**53.215**	598	16.063

15 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 2020, the Bank recognised a gain of €3.948 thousand (2019: €5.351 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 a loss of €3.987 thousand (2019: €5.466 thousand) from changes in the carrying amount (i.e. fair value) of the hedged instrument. The amount of hedge ineffectiveness recognised for 2020 in the income statement (under net trading income) was €59 thousand loss (2019: €114 thousand loss). The IRSs used for hedging have a forward start date in 2022 and 2024 earning EUR_EONIA + 113 basis points and paying a fixed rate of 2,375%, EURI16MD + 147 basis points and paying a fixed rate of 2,75% and EURI16MD + 23 basis points and paying a fixed rate of 0,625%.

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.

15 Derivative financial instruments (continued)

Fair value hedges (continued)

At 31 December 2020 and 2019, the amounts relating to items designated as fair value hedged items were as follows:

	31 December 2020		
	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	**99.920**	**9.821**	**3.948**

	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**

At 31 December 2020 and 2019, 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 2020		31 December 2019	
	Maturity over 5 years	**Total**	Maturity over 5 years	Total
	€'000	**€'000**	€'000	€'000
Interest rate swap - Investment securities at AC	**90.000**	**90.000**	60.000	60.000

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.

All derivatives are under collateral agreements and they are covered by ISDA agreements with Eurobank S.A.

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.

15 Derivative financial instruments (continued)

Derivative financial instruments and hedge accounting

In July 2020, the discounting curve of Euro denominated interest rate derivatives centrally cleared through certain central clearing counterparties, changed from EONIA to €STR. The resulted change in the fair value of these instruments was offset by an equal cash compensation amount, to the party suffering the economic loss from the transition, in order to avoid transfer of value between the two parties. As a result, the change in the discounting curve to €STR did not impact the Bank's income statement.

16 Loans and advances to customers

	31 December 2020 €'000	31 December 2019 €'000
Loans and advances to customers at amortised cost:		
- Gross carrying amount	**2.238.036**	2.136.224
- Impairment allowance	**(45.965)**	(47.527)
Carrying amount	**2.192.071**	2.088.697
Loans and advances to customers mandatorily at FVTPL:		
Carrying amount	**7.540**	8.731
Total	**2.199.611**	2.097.428

	31 December 2020 €'000	31 December 2019 €'000
Maturity analysis:		
Current	**733.299**	349.265
Non-current	**1.466.312**	1.748.163
	2.199.611	2.097.428

16 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 2020 and 2019:

	31 December 2020				31 December 2019			
	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	11.092	-	-	11.092	11.093	-	-	11.093
Impairment allowance	-	-	-	-	-	-	-	-
Carrying amount	11.092	-	-	11.092	11.093	-	-	11.093
- Consumer								
Gross carrying amount	22.148	4	18	22.170	20.752	1	9	20.762
Impairment allowance	(260)	-	(10)	(270)	(119)	-	(9)	(128)
Carrying amount	21.888	4	8	21.900	20.633	1	-	20.634
- Affluent banking								
Gross carrying amount	31.720	1.124	373	33.217	20.879	260	371	21.510
Impairment allowance	(89)	(6)	(114)	(209)	(22)	(1)	(16)	(39)
Carrying amount	31.631	1.118	259	33.008	20.857	259	355	21.471
- Credit cards								
Gross carrying amount	666	11	3	680	709	10	7	726
Impairment allowance	(4)	(1)	(1)	(6)	(2)	-	(5)	(7)
Carrying amount	662	10	2	674	707	10	2	719
Wholesale Lending:								
- Large corporate loans								
Gross carrying amount	1.041.843	138.535	50.272	1.230.650	979.661	94.578	48.704	1.122.943
Impairment allowance	(3.124)	(1.758)	(28.025)	(32.907)	(1.557)	(1.111)	(29.172)	(31.840)
Carrying amount	1.038.719	136.777	22.247	1.197.743	978.104	93.467	19.532	1.091.103
- Wealth management loans								
Gross carrying amount	288.054	15.166	18.266	321.486	257.929	17.869	20.485	296.283
Impairment allowance	(561)	(173)	(10.229)	(10.963)	(180)	(299)	(13.521)	(14.000)
Carrying amount	287.493	14.993	8.037	310.523	257.749	17.570	6.964	282.283
- International business banking loans								
Gross carrying amount	457.192	2	1.277	458.471	472.217	472	1.276	473.965
Impairment allowance	(1)	(1)	(1)	(3)	(15)	-	(1)	(16)
Carrying amount	457.191	1	1.276	458.468	472.202	472	1.275	473.949
- Shipping loans								
Gross carrying amount	158.677	-	1.593	160.270	187.192	-	1.750	188.942
Impairment allowance	(14)	-	(1.593)	(1.607)	(44)	-	(1.453)	(1.497)
Carrying amount	158.663	-	-	158.663	187.148	-	297	187.445
Total at amortised cost								
Gross carrying amount	2.011.392	154.842	71.802	2.238.036	1.950.432	113.190	72.602	2.136.224
Impairment allowance	(4.053)	(1.939)	(39.973)	(45.965)	(1.939)	(1.411)	(44.177)	(47.527)
Carrying amount	**2.007.339**	**152.903**	**31.829**	**2.192.071**	**1.948.493**	**111.779**	**28.425**	**2.088.697**
Mandatorily at FVTPL								
Carrying amount				**7.540**				**8.731**
Total	**2.007.339**	**152.903**	**31.829**	**2.199.611**	**1.948.493**	**111.779**	**28.425**	**2.097.428**

In 2020 loans of €87 thousand that were written off in prior years were recovered (2019: €10 thousand).

Interest income on impaired loans and advances to customers accrued during the year amounted to €1.130 thousand (2019: €1.373 thousand).

17 Investment securities

	31 December 2020 €'000	31 December 2019 €'000
Investment securities at FVOCI	**630.366**	537.184
Investment securities at amortised cost	**362.415**	345.936
Investment securities mandatorily at FVTPL	**2.189**	2.235
	994.970	885.355
Maturity analysis:		
Current	**353.422**	289.674
Non-current	**641.548**	595.681
	994.970	885.355

The tables below disclose the gross carrying amount, impairment allowance and carrying amount per stage of investment securities as at 31 December 2020 and 2019:

	31 December 2020		31 December 2019	
	12-month ECL €'000	**Total €'000**	12-month ECL €'000	Total €'000
Debt securities at FVOCI:				
Carrying amount	**630.366**	**630.366**	537.184	537.184
Debt securities at amortised cost:				
- Gross carrying amount	**362.807**	**362.807**	346.489	346.489
- Impairment allowance	**(392)**	**(392)**	(553)	(553)
Carrying amount	**362.415**	**362.415**	345.936	345.936
Total of debt securities	**992.781**	**992.781**	883.120	883.120
Other investment securities mandatorily at FVTPL:				
Equity shares		**255**		248
UCIT funds		**1.934**		1.987
Carrying amount		**2.189**		2.235
Total of investment securities		**994.970**		885.355

17 Investment securities (continued)

The investment securities per category are analysed as follows:

	31 December 2020			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities mandatorily at FVTPL €'000	Total €'000
Debt securities:				
- Cyprus government bonds	201.913	362.415	-	**564.328**
- Other government bonds	157.832	-	-	**157.832**
- Multilateral development banks	72.829	-	-	**72.829**
- Banks and financial institutions	115.344	-	-	**115.344**
- Other issuers	82.448	-	-	**82.448**
Total debt securities	**630.366**	**362.415**	-	**992.781**
Other investment securities:				
Equity shares	**-**	**-**	255	**255**
UCIT funds	**-**	**-**	1.934	**1.934**
Total other investment securities	**-**	**-**	**2.189**	**2.189**
Total of investment securities	**630.366**	**362.415**	**2.189**	**994.970**

	31 December 2019			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities mandatorily 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**

All investment securities, with the exception of UCIT funds and equity shares with a fair value of €12 thousand (2019: €12 thousand), are listed.

Eurobank Cyprus Ltd

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17 Investment securities (continued)

The movement of investment securities in 2020 and 2019 is as follows:

	31 December 2020			
	Investment securities at FVOCI	**Investment securities at amortised cost**	**Investment securities mandatorily at FVTPL**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
Gross carrying amount at 1 January	**537.184**	**346.489**	**2.235**	**885.908**
Additions	482.451	40.630	-	**523.081**
Disposals and redemptions	(356.219)	(20.001)	-	**(376.220)**
Maturities	-	(6.621)	-	**(6.621)**
Amortisation of discounts/premiums and interest	(2.987)	(1.639)	-	**(4.626)**
Net (losses)/gains from changes in fair values	(7.901)	-	35	**(7.866)**
Changes in fair value due to hedging	-	3.949	-	**3.949**
Foreign exchange	(22.162)	-	(81)	**(22.243)**
Gross carrying amount at 31 December	**630.366**	**362.807**	**2.189**	**995.362**
Impairment allowance	-	(392)	-	**(392)**
Carrying amount at 31 December	**630.366**	**362.415**	**2.189**	**994.970**

	31 December 2019			
	Investment securities at FVOCI	**Investment securities at amortised cost**	**Investment securities mandatorily at FVTPL**	**Total**
	€'000	**€'000**	**€'000**	**€'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**

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

17 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:

	2020	2019
	€'000	€'000
Balance at 1 January	**14.957**	9.998
Net gains from changes in fair value	**360**	6.603
Net gains from investment securities transferred to Income Statement due to disposal	**(8.262)**	(1.360)
Impairment allowance/(reversal of impairment allowance) of investment securities at FVOCI	**425**	(284)
Reversal of impairment allowance on disposal of investment securities at FVOCI	**(100)**	-
Balance at 31 December	**7.380**	14.957

18 Investments in subsidiaries

The subsidiary companies and their principal activity are described below:

Name	*Participation*	*Principal activities*	**2020 €'000**	2019 €'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**	1
Ragisena Ltd	100%	Investing activities	**1**	1
Revasono Holdings Ltd	100%	Investing activities	**1**	1
Volki Investments Ltd	100%	Investing activities	**1**	1
Zivar Investments Ltd	100%	Investing activities	**1**	1
Elerovio Holdings Limited	100%	Investing activities	**1**	-
Adariano Investments Limited	100%	Investing activities	**1**	-
			11	9

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 2020 Elerovio Holdings Limited and Adariano Investment Limited were set up with a share capital of €1 thousand each.

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.

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

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Notes to the financial statements

19 Property, plant and equipment

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

	31 December 2020				
	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	Right-of-use assets €'000	Total €'000
Cost					
Balance at 1 January	14.209	71	6.524	8.929	**29.733**
Additions	1.064	-	838	13.791	**15.693**
Disposals	(22)	-	(49)	-	**(71)**
Write offs	(1.201)	-	-	-	**(1.201)**
Changes due to remeasurements	-	-	-	981	**981**
Effect of changes in foreign exchange rates	-	-	-	(24)	**(24)**
Balance at 31 December	**14.050**	**71**	**7.313**	**23.677**	**45.111**
Accumulated depreciation					
Balance at 1 January	6.958	42	4.225	1.537	**12.762**
Charge for the year	887	6	539	2.440	**3.872**
Disposals	(22)	-	(49)	-	**(71)**
Write offs	(1.201)	-	-	-	**(1.201)**
Effect of changes in foreign exchange rates	-	-	-	(14)	**(14)**
Balance at 31 December	**6.622**	**48**	**4.715**	**3.963**	**15.348**
Net book value at 31 December	**7.428**	**23**	**2.598**	**19.714**	**29.763**

	31 December 2019				
	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	Right-of-use assets €'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	-	(35)	-	(11)	**(46)**
Write offs	-	-	(43)	-	**(43)**
Changes due to remeasurements	-	-	-	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	-	(35)	-	(2)	**(37)**
Write offs	-	-	(37)	-	**(37)**
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**

19 Property, plant and equipment (continued)

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

As at 31 December 2020, the right-of-use assets amounting to €19.714 thousand (2019: €7.392 thousand) refer to leased office and branch premises of €19.391 thousand (2019: €7.073 thousand) and motor vehicles of €323 thousand (2019: €319 thousand).

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

	2020 €'000	2019 €'000
Carrying amount	**-**	6
Gain on sale of property, plant and equipment	**20**	-
Proceeds from sale of property, plant and equipment as per cash flow statement	**20**	6

20 Intangible assets

Intangible assets comprise of computer software.

The movement of computer software is as follows:

	2020 €'000	2019 €'000
Cost		
Balance at 1 January	**14.888**	8.970
Additions	**7.512**	5.918
Write offs	**(32)**	-
Balance at 31 December	**22.368**	14.888
Accumulated depreciation		
Balance at 1 January	**6.915**	5.470
Charge for the year	**1.575**	1.445
Write offs	**(32)**	-
Balance at 31 December	**8.458**	6.915
Net book value at 31 December	**13.910**	7.973

Additions mainly relate to the new core accounting system which is in the process of completion and implementation is expected to be finalised in 2021.

21 Other assets

	2020 €'000	2019 €'000
Prepaid expenses	**1.155**	622
Other assets	**148**	177
	1.303	799

	2020	2019
Maturity analysis:	**€'000**	€'000
Current	**977**	589
Non-current	**326**	210
	1.303	799

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

22 Due to central banks

	2020 €'000	2019 €'000
Secured borrowing from credit institutions	**548.541**	-

The European Central Bank ("ECB") has introduced a series of measures since March 2020 in order to further support the liquidity conditions of the banking system, the money market activity and the lending to the real economy in the face of the effects of the Covid-19 pandemic. In particular, a series of longer-term refinancing operations ("LTROs") entered into force until 24 June 2020, while the terms and conditions of targeted longer-term refinancing operations ("TLTRO III") have been modified in terms of lending performance thresholds, applicable interest rates and borrowing allowance in order to support the continuous access of households and firms to bank credit in the face of Covid-19 pandemic's outbreak.

Based on the modified terms, the interest rate on TLTRO III facilities has been reduced to 0,50% for the period from June 2020 to June 2021, while for banks meeting the required lending thresholds, the interest rate for the abovementioned period may be as low as -1% (i.e. average deposit facility rate minus 50bps). Additionally, for the rest of the period until the maturity of the TLTRO III facilities, the average deposit facility rate over their life is applied, provided that the aforementioned lending thresholds are met according to the ECB conditions.

In the context of the aforementioned measures, the Bank borrowed from ECB's targeted longer-term refinancing operations the amount of €550 million, using as collaterals, among others, Cyprus government, Supranational, corporate and other governments' bonds and bonds issued by financial institutions.

The Bank has assessed the terms of the program and concluded that TLTRO III contains a significant benefit in comparison to the market's pricing for other similarly collateralised borrowings available to the Bank and this benefit should be accounted for as a government grant under IAS 20. Consequently, the Bank considers that the grant is intended to compensate for its funding costs incurred over the term of each TLTRO-III facility and therefore, the benefit should be allocated systematically under interest expense.

22 Due to central banks (continued)

As at 31 December 2020, the Bank has recognised on an accrual basis, the benefit of "-0.50%" from TLTRO III for the period June 2020 to June 2021 amounting to €1.459 thousand. The Bank will revisit its expectations of meeting the conditions attached to the more favourable interest rates applicable to TLTRO III facilities and once it has reasonable assurance of meeting the lending targets required it will recognise the benefit into the income statement.

In March 2021 the Bank extended its participation by an additional €65 million.

23 Due to credit institutions

	2020 €'000	2019 €'000
Deposits due to credit institutions	**92.448**	105.068
Settlement balances with credit institutions	**49.901**	77.706
	142.349	182.774
Maturity analysis:		
Current:		
- on demand up to 7 days	**49.926**	77.731
- 7 days up to 3 months	**56.231**	67.046
- 3 months to 1 year	**2.773**	668
	108.930	145.445
Non-current:		
- after 5 years	**33.419**	37.329
	33.419	37.329
	142.349	182.774

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

24 Due to customers

	2020 €'000	2019 €'000
Current accounts	**3.512.188**	3.024.095
Notice accounts	**11.638**	38.654
Term deposits	**1.930.265**	2.452.924
Repurchase agreements	**30.038**	30.039
	5.484.129	5.545.712
Maturity analysis:		
- up to 1 month	**4.532.045**	3.862.774
- between 1 month and three months	**343.946**	909.403
- between three months and one year	**606.885**	770.803
- between one year and five years	**1.253**	2.732
	5.484.129	5.545.712

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2020 amounted to €571.396 thousand (2019: €597.090 thousand).

24 Due to customers (continued)

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. 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 2020 amounted to €6.290 thousand (2019: €6.375 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 2020 government levy is net of €2.023 thousand (2019: €1.371 thousand) relating to the contribution to the Single Resolution Fund.

25 Other liabilities

	2020	2019
	€'000	€'000
Impairment allowance on financial guarantees and credit related commitments (note 4.2.1.3)	**2.748**	1.006
Impairment allowance on securities lending	**619**	-
Lease liabilities (note 28)	**20.195**	7.483
Balances under settlement relating to bank cheques	**11.076**	28.604
Duties and other taxes	**1.593**	1.800
Suppliers and creditors	**2.753**	2.574
Other liabilities and accruals	**25.290**	22.074
	64.274	63.541

	2020	2019
	€'000	€'000
Maturity analysis:		
Current	**46.221**	57.448
Non-current	**18.053**	6.093
	64.274	63.541

As at 31 December 2020 and 2019, other liabilities and accruals mainly consist of staff related and trading balances. As at 31 December 2020, they include commissions and consultancy fees of €143 thousand (2019: €129 thousand) payable to Eurobank S.A. (note 32(i), included in "Other liabilities") and provisions for operational risk events of €62 thousand (2019: €45 thousand).

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 2020 & 2019	**1.500**	**15.000**	**-**	**15.000**
Issued				
At 31 December 2020 & 2019	**1.201**	**12.010**	**245.384**	**257.394**

There were no changes in the Bank's share capital during the years ended 31 December 2020 and 2019.

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 2020 is retained. The Board of Directors will consider during 2021 the payment of a dividend.

27 Transfers of financial assets

The Bank enters into transactions by which it transfers recognised financial assets directly to third parties.

(a) The Bank entered the TLTRO III repo funding programme with the amount of €550 million and pledged to the Central Bank securities of face value €541 million which is unable to use, sell or pledge the transferred assets for the duration of the said transaction. The related liability is recognised in "Due to central banks" (note 22).

(b) The Bank enters into reverse repos transactions with the Group. As at 31 December 2020, the Bank had obtained through reverse repos securities of face value of €2.015 million, providing cash to the Group of €2.127 million (31 December 2019: €2.211 million and €2.282 million, respectively). The Bank may sell or pledge any securities obtained through reverse repos and has an obligation to return the securities. The counterparty, the Group, retains substantially all the risks and rewards of ownership and therefore the securities are not recognised by the Bank.

27 Transfers of financial assets (continued)

(c) The Bank enters into security lending transactions, i.e. fee based, non-collateralised securities lending transactions. The Bank (the Lender) is lending a series of sovereign securities and the Borrowers are paying to the Lender on a monthly basis a fee in the range of 0,20%-0,40%. The bonds that are used for security lending are either from the Bank's own portfolio or gained through reverse repos with the Group and are High Quality Liquid Assets ("HQLA"). Because of the above transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction. As at 31 December 2020, the securities used for security lending transactions amounted in face value to €660 million (31 December 2019: €403 million).

28 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.

Information about leases for which the Bank is a lessee is presented in note 19 as "right-of-use assets" the nature of which is as below:

	2020	2019
	€'000	€'000
Buildings	**19.391**	7.073
Motor vehicles	**323**	319
	19.714	7.392

Right-of-use assets

	31 December 2020		
	Property €'000	Motor Vehicles €'000	**Total €'000**
Balance at 1 January 2020	7.073	319	**7.392**
Additions	13.681	110	**13.791**
Changes due to reassessments	981	-	**981**
Depreciation charge for the year	(2.334)	(106)	**(2.440)**
Effect of changes in foreign exchange rates	(10)	-	**(10)**
Balance at 31 December 2020	19.391	323	**19.714**

28 Leases – where the Bank is the lessee (continued)

Right-of-use assets (continued)

	31 December 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	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 2020 and 2019.

Amounts recognised in profit or loss

	2020 €'000	2019 €'000
2019 - Leases under IFRS 16		
Interest on lease liabilities	**257**	319
Expenses relating to short-term leases	**131**	304

Amounts recognised in the cash flow statement

	2020 €'000	2019 €'000
Total cash outflow for leases	**2.293**	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.

There were no such leases as at 31 December 2020.

Extension options

Some leases of office premises contain extension options exercisable by the Bank. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

28 Leases – where the Bank is the lessee (continued)

Rent concessions

No rent concessions were granted to the Bank as a lessee up to 31 December 2020, as direct consequence of the Covid-19 pandemic.

29 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.

	2020 €'000	2019 €'000
Contingent liabilities:		
Financial guarantee contracts	**137.976**	184.154
Credit related commitments	**8.188**	6.963
	146.164	191.117
Commitments:		
Loan commitments	**434.166**	377.636

Impairment allowance on credit related commitments and contingent liabilities is presented within "Other liabilities" (note 25).

Capital commitments

As at 31 December 2020 commitments for contracted capital expenditures for the Bank amounted to €5.457 thousand (2019: €5.577 thousand) of which €269 thousand (2019: €752 thousand) were for leasehold improvements and €5.188 thousand (2019: €4.825 thousand) for the acquisition of computer software.

Legal proceedings

As at 31 December 2020 and 2019 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.

30 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 €2.286.514 thousand (2019: €2.135.232 thousand).

31 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:

	2020 €'000	2019 €'000
Cash in hand (note 13)	**6.717**	9.554
Balances with credit institutions (note 14)	**2.383.902**	2.405.327
Balances with central banks, excluding mandatory deposits (note 13)	**1.135.082**	821.830
	3.525.701	3.236.711

Changes in liabilities arising from financing activities

During the year ended 31 December 2020, changes in the Bank's liabilities arising from financing activities of €2.293 are attributable to payments of lease liabilities (2019: €1.155 thousand).

32 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 Services and Holdings 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. through Eurobank Ergasias S.A.

On 20 March 2020, Eurobank Ergasias S.A. ("Demerged Entity") announced that its demerger through the banking sector's hive down and the establishment of a new company-credit institution ("Demerger") under the corporate name "Eurobank S.A." was approved, while on 23 March 2020 the Demerged Entity was renamed to "Eurobank Ergasias Services and Holdings S.A." ("Eurobank Holdings"). Following the above, the key management personnel ("KMP") of the Demerged Entity remained as the Eurobank S.A.'s KMP. Furthermore, the Board of Directors ("BoD") of Eurobank Holdings is the same as the BoD of Eurobank S.A. and part of the KMP of Eurobank S.A. provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities. As at 31 December 2020, the percentage of Eurobank Holdings' ordinary shares with voting rights held by the Hellenic Financial Stability Fund ("HFSF") stands at 1,40%. The HFSF is considered to have significant influence over Eurobank Holdings pursuant to the provisions of the Law 3864/2010, as in force, the Relationship Framework Agreement ("RFA") the Demerged Entity has entered into with the HFSF on 4 December 2015 and the Tripartite Relationship Framework Agreement ("TRFA") between Eurobank S.A., Eurobank Holdings and the HFSF signed on 23 March 2020.

In addition, as of December 2019, Fairfax Financial Holdings Limited has obtained the required regulatory approvals in relation to the increase of its shareholding in the Demerged Entity, which arose from the merger of the latter with Grivalia Properties REIC in the same year. Accordingly, Fairfax group, which as at 31 December 2020 holds 31,27% in the Eurobank Holdings' share capital, is considered to have significant influence over Eurobank Holdings. 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 include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

32 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.

(i) Related party transactions and outstanding balances:

The outstanding balances and transactions with related parties are as follows:

	With Ergasias S.A.		With Eurobank Group (other than Eurobank S.A.)		With key management personnel	
	2020 €'000	2019 €'000	**2020 €'000**	2019 €'000	**2020 €'000**	2019 €'000
Balances:						
Due from credit institutions[1]	**2.208.711**	2.306.556	**789**	452	**-**	-
Loans and advances to customers[2]	**-**	-	**26.645**	25.358	**728**	797
Derivative financial instruments – Assets	**7**	577	**-**	-	**-**	-
Other assets	**-**	-	**-**	-	**-**	-
Due to credit institutions	**59.044**	97.554	**-**	-	**-**	-
Derivative financial instruments – Liabilities	**53.198**	15.915	**-**	-	**-**	-
Due to customers[3]	**-**	-	**11.946**	26.919	**6.178**	5.138
Other liabilities	**315**	165	**415**	349	**-**	-

	With Ergasias S.A.		With Eurobank Group (other than Eurobank S.A.)		With key management personnel	
	2020 €'000	2019 €'000	**2020 €'000**	2019 €'000	**2020 €'000**	2019 €'000
Transactions:						
Interest income[4]	**14.141**	23.920	**410**	1.976	**9**	15
Interest expense	**5.343**	3.580	**7**	12	**14**	24
Banking fee and commission income	**264**	476	**91**	48	**-**	-
Banking fee and commission expense – fees on lien agreement	**699**	1.391	**-**	-	**-**	-
Banking fee and commission expense – other	**430**	543	**712**	508	**-**	-
Net trading income	**383**	106	**-**	-	**-**	-
Staff costs excluding retirement benefit costs	**-**	-	-	-	**2.255**	2.063
Defined contribution plan	**-**	-	-	-	**190**	183
Directors' remuneration	**-**	-	-	-	**1.113**	997
Other operating expenses	**584**	700	**12**	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 S.A. of €2.127.288 thousand (2019: €2.281.872 thousand) (note 14).

32 Related party transactions and balances (continued)

As at 31 December 2019, the fair value adjustment for amounts due from credit institutions (i.e. Eurobank S.A.) measured mandatorily at FVTPL amounted to €310 thousand. As at 31 December 2020 there were no amounts due from credit institutions measured at fair value.

[2]Loans and advances to customers with Eurobank Group include loans and advances to the Bank's direct subsidiaries of €18.127 thousand (2019: €17.123 thousand).

Total collaterals in relation to loans and advances to key management personnel amounted to €470 thousand (2019: €569 thousand).

[3]Due to customers with Eurobank Group include balances with the Bank's direct subsidiaries of €27 thousand (2019: €27 thousand).

[4]Interest income from Eurobank Group includes income from the Bank's direct subsidiaries of €175 thousand (2019: €133 thousand).

(ii) Lien agreements

As of 31 December 2020 and 2019, the Bank has in place lien agreements from Eurobank S.A., which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2020 €'000	2019 €'000
Loans and advances to customers	**37.615**	40.368

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 S.A.

33 Events after the balance sheet date

The Bank extended its participation to TLTRO III by an additional amount of €65 million in March 2021 (note 22).

Independent Auditor's Report on pages 8 to 13.

Eurobank Cyprus Ltd

Appendix

Definition of financial ratios included in the Management Report for 2020

- **Cost to income ratio:** Total operating expenses divided by total operating income.

- **Return on equity:** Profit for the year divided by the average equity (the arithmetic average of equity at the end of the reported year and at the end of the previous year).

- **Loans to deposits:** Loans and advances to customers divided by due to customers at the end of the reported year.

- **Cost of risk:** Impairment allowance on loans and advances charged in the reported year, divided by the average balance of loans and advances to customers (the arithmetic average of loans and advances to customers at the end of the reported year and at the end of the previous year).

- **NPE provisions coverage:** Impairment allowance for loans and advances to customers, including impairment allowance for credit related commitments (off balance sheet items) divided by NPEs at the end of the reported period.

- **Credit-impaired loans/gross loans:** NPEs divided by gross loans and advances to customers (the balance of loans and advances to customers before impairment allowance).

- **Capital adequacy ratio:** Total regulatory capital as defined by Regulations (EU) No 575/2013 and No 2395/2017, divided by total Risk Weighted Assets (RWA).

- **Leverage ratio:** The leverage ratio is calculated as total regulatory capital divided by total exposure measure, as defined by Regulations (EU) No 575/2013 and No 2395/2017.