The Cyprus Development Bank Group

Annual Report and Financial Statements

For the year ended 31 December 2021

CONTENTS

DIRECTORS AND ADVISERS

Management Body

Christodoulos Patsalides, Chairman, Non-Executive

Wahid Pierre Chammas, Non-Executive (resigned on 08.06.2021)

Andreas Hadjikyrou, Non-Executive (appointed on 03.03.2022)

Stalo Koumidou, Non-Executive (appointed on 02.02.2022)

George Loizou, Non-Executive

Konstantinos Mitropoulos, Non-Executive (appointed on 29.04.2022)

Neoclis Nicolaou, Non-Executive (resigned on 19.02.2021)

Avgoustinos Papathomas, Non-Executive

George Pavlides, Non-Executive

Christodoulos Plastiras, Non-Executive

Loucas Marangos, Executive (appointed on 21.07.2021)

Stella Avraam, Executive

Chief Executive Officer

Loucas Marangos (appointed on 21.07.2021)

Acting Chief Executive Officer

Stella Avraam (appointed from 01.12.2020 until 21.07.2021)

Secretary

Maria Agathokleous

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

Deloitte Limited

Registered office

50, Arch. Makarios III Avenue

Alpha House

1065 Nicosia

MANAGEMENT REPORT

The Management Body of The Cyprus Development Bank Public Company Limited (the "Bank") presents to the members its annual report together with the audited financial statements of the Bank and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiary companies, which remained unchanged from last year, are the provision of banking and financial services.

All subsidiary companies are set out in note 20.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 43.

The Group loss before tax for the year ended 31 December 2021 amounted to €0,6 million compared to a loss of €2,7 million for the year ended 31 December 2020.

Income Statement Analysis

Net interest income

The Group's net interest income for the year ended 31 December 2021 was €8,8 million, down by 10,6% compared to €9,8 million for the year ended 31 December 2020, mainly due to the continuing pressure from the low interest rate environment as well as the decrease of income earning assets.

The Group's average interest earning assets for 2021 amounted to €507 million (2020: €541 million), a decrease of 6,3% compared to last year, while net interest margin for 2021 amounted to 1,77% (2020: 1,82%).

Non-interest income

Net non-interest income for 2021 amounted to €3,7 million compared to €6,0 million in 2020, down by 38,5% compared to 2020, comprising net fee and commission income of €2,7 million (2020: €3,6 million), net foreign exchange gains of €0,4 million (2020: €0,5 million), net gains on disposal of stock of property €0,2 million (2020: €1,8 million), and negative goodwill on acquisition of associate of €0,3 million (2020: nil). The yearly decrease of 38,5% (€2,3 million) is mainly attributable to lower profit from disposal of properties by €1,6 million in 2021 compared to 2020 as well as to lower fee and commission income by €0,9 million.

Net fee and commission income for 2021 amounted to €2,7 million, compared to €3,6 million for 2020, a decrease of 25,2% mainly due to the discontinuation of the Cyprus Investment Programme as well as the closure of the Bank's USD correspondent account.

Net foreign exchange gains for 2021 amounted to €0,4 million, compared to €0,5 million for 2020, the decrease reflecting the impact from the closure of the Bank's USD correspondent account.

Other income for 2021 amounted to €0,7 million (2020: €1,9 million), comprising mainly of profit on disposal of stock of property of €0,2 million (2020: €1,8 million), negative goodwill of €0,3 million on the acquisition, by the Bank's subsidiary Global Capital Ltd, of CLR Investment Fund Public Ltd which has been classified as an associate and €0,2 million rental income from REOs (€2020: €0,1 million).

Total income for 2021 amounted to €12,5 million, compared to €15,9 million for 2020, down by 21,2%.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Expenses

Total expenses for the year ended 31 December 2021 amounted to €11,9 million, remaining relatively unchanged, compared to €12,0 million for the year ended 31 December 2020 (adjusted for termination benefits to staff).

Group staff costs for 2021 amounted to €7,7 million compared to €7,4 million for 2020 (adjusted for termination benefits to staff), recording an increase of 4,2%. The main driver of the increase was the annual increments to staff as per collective agreements with the Cyprus Union of Bank Employees.

The Group's total other operating expenses for 2021 amounted to €4,3 million, recording a decrease of 7,2% compared to €4,6 million for 2020, mainly due to lower regulatory fees, lower marketing, subscriptions and donations and lower depreciation charge.

The Group's cost to income ratio for 2021 was 95,6% compared to 75,5% for 2020 reflecting the reduced income for 2021 compared to 2020.

Provisions for impairment

The Group's total provisions for impairment for 2021 amounted to €1,1 million comprising of impairment on loans and advances of €1,2 million (2020: €5,3 million), impairment reversals on financial guarantees and commitments -€0,6 million (2020: €0,2 million) and impairment on valuation of stock of property of €0,6 million (2020: €0,6 million), recording a significant decrease of 82% compared to impairments of €6,2 million for 2020.

The decrease of impairment losses was mainly driven by the reduction of impairment losses on the loan portfolio in 2021 compared to 2020, as a result of the improvement of the forward-looking macroeconomic outlook which was heavily impacted last year by the COVID-19 pandemic leading to increased impairment charges.

Statement of Financial Position Analysis

Liquidity

As at 31 December 2021, the Group Liquidity Coverage Ratio (LCR) stood at 268% (compared to 423% at 31 December 2020), above the regulatory minimum requirement of 100%. The liquidity surplus in LCR at 31 December 2021 amounted to €172 million (compared to €203 million at 31 December 2020).

At 31 December 2021, the Group's Net Stable Funding Ratio (NSFR) stood at 194%, above the minimum regulatory requirement of 100%, enforced in June 2021 as per CRR II.

Liquid assets

The Group's carrying value of liquid assets amounted to €282 million at 31 December 2021 representing 55% of the total assets of the Group (31 December 2020: €329 million). Liquid assets comprise of cash and balances with Central Bank, placements with other banks and investments in debt securities.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Liquid assets (continued)

Cash and balances with Central Bank and other banks amounted to €170 million at 31 December 2021, a decrease of 31% compared to €247 million at 31 December 2020.

Investments in debt securities amounted to €112 million as at 31 December 2021 compared to €82 million at 31 December 2020 an increase of 36%. The Group's investments at 31 December 2021 comprised of sovereign debt securities.

Loans and advances to customers

The Group's gross loans and advances as at 31 December 2021 amounted to €263 million decreasing by 9,0% compared to €289 million as at 31 December 2020 mainly due to resolution of NPEs as well as substantial repayments of the performing portfolio.

Loan moratorium

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. The payment holiday for all these loans expired on 31 December 2020.

Early on in 2021, mainly in the first half of the year, 22% of loans under expired payment deferrals were restructured. Performing loans as at 31 December 2021 under expired payment deferrals amounted to €114 million (31 December 2020: €135 million), of which 95% had their repayment commencing in 2021. As at 31 December 2021, €87 million (76%) presented no arrears, €26 million (23%) presented arrears of one day and €1 million (1%) presented arrears of less than 30 days.

Loan portfolio quality

The Group continued its efforts towards improving the quality of the loan portfolio. At 31 December 2021 NPEs amounted to €96 million a decrease of 13% compared to €110 million as at 31 December 2020. During the year NPE decreases amounted to €29 million made up of collections and cures of €9 million, DFAS and foreclosures of €2 million and write offs of €18 million while increases amounted to €15 million made up of €8 million new defaults and €7 million interest accruals.

The NPEs provision coverage ratio stood at 46,7% at 31 December 2021, compared to 52,6% at 31 December 2020, the decrease mainly being attributed to the write off of fully provided non-performing loans of €18 million.

Stock of property

During the year ended 31 December 2021, the Group on-boarded €1,6 million (31 December 2020: €8,1 million) of properties through debt-for-asset swaps and foreclosures and completed disposals of €1,6 million (31 December 2020: €16,7 million). Disposals in 2021 were made at a net gain of €131 thousand (31 December 2020: €1.767 thousand). Impairment on stock of property amounted to €551 thousand for 2021 (2020: €598 thousand).

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Deposits

The Group deposits amounted to €438 million as at 31 December 2021, a decrease of 16% compared to €524 million at 31 December 2020. Customer deposits accounted for 85% of total assets at 31 December 2021 and net loans to deposit ratio stood at 49% at 31 December 2021 (31 December 2020: 43%).

Loan capital

The loan capital increased from €5 million as at 31 December 2020 to €11,25 million (nominal value) as at 31 December 2021, through the issue of €6,25 million unsecured subordinated Bonds of 10 year duration.

At 31 December 2021, the Group's loan capital (including accrued interest) amounted to €11,26 million (31 December 2020: €5,0 million) and relates to an Unsecured perpetual Subordinated Note of €5 million (31 December 2020: €5 million) which qualifies for classification as Additional Tier 1 Capital, and Subordinated Tier 2 bonds of €6,26 million (31 December 2020: nil) which qualifies for classification as Tier 2 Capital.

Capital base

The primary objective of the Bank's capital management is to ensure compliance with regulatory requirements as well as optimise capital usage ensuring the maintenance of healthy capital adequacy ratios to support its growth and generate value for shareholders.

The Group's CET1 ratio on a transitional basis as at 31 December 2021 amounted to 16,29% (31 December 2020: 14,81%). The CET1 ratio was positively affected during 2021 by the decrease in risk-weighted assets (RWA), and negatively affected by the phasing-in of IFRS 9 transitional arrangements on 1 January 2021 and Group losses for the year. The CET1 ratio on a fully loaded basis amounted to 15,45% as at 31 December 2021 compared to 13,67% as at 31 December 2020.

The Group's Overall Capital Ratio as at 31 December 2021 on a transitional basis stood at 20,78% (31 December 2020: 16,52%) and on a fully loaded basis stood at 20,03% (31 December 2020: 15,41%).

All capital ratios of the Group are above the regulatory minimum requirements.

GOING CONCERN

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements. The Directors have considered the conditions that existed during 2021 and the developments up to the date of approval of these financial statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

MANAGEMENT REPORT (continued)

GOING CONCERN (continued)

The Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the current and projected financial performance of the Group and future course of action as per business plan, the risks emanating from the operating environment in which the Group operates and consider that the going concern principle is appropriate and that no material uncertainties exist which may cast significant doubt on the Group's and Bank's ability to continue as a going concern.

The going concern assessment is presented in note 2.1 to the financial statements.

DIVIDEND

The Management Body does not recommend the payment of dividend.

RISK MANAGEMENT

As a financial organisation the Group is exposed to risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Group monitors and manages these risks through various control mechanisms. Information relating to the principal risks the Group faces and risk management is set out in note 37 to the financial statements. In addition, in relation to legal risk arising from litigations, further information is disclosed in note 42 to the financial statements.

SHARE CAPITAL

There were no changes in the share capital of the Bank during the year ended 31 December 2021.

SHAREHOLDERS

The shareholding structure as at 31 December 2021 is presented in note 40 to the financial statements.

CAPITAL MANAGEMENT

At 31 December 2021 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (31 December 2020: 9,93%) and an overall capital adequacy ratio of 15,70% (31 December 2020: 15,70%).

The Group's CET 1 and overall capital adequacy ratio as at 31 December 2021 stood at 16,29% and 20,78% respectively, being above the minimum regulatory requirements.

The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimize capital usage and maintain ratios above minimum requirements.

Details on capital management are shown in note 37.5 to the financial statements.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES

The Group has set its strategic priorities for 2022 which mainly aim at increasing its operating profitability through the increase of its credit portfolio and diversification of its fee-generating activities. At the same time the effective management of non-performing exposures and the maintenance of strong capital and liquidity ratios remain top priorities for the Group.

Following the expiration of the payment moratorium on loans and advances on 31 December 2020, the Group engaged actively with its customers, especially those operating in more vulnerable to the pandemic sectors of the economy, to identify and assess their needs and provide the required support. Clients' performance since the end of the payment moratorium on 31 December 2020 is encouraging. The Group remains committed to continue to provide support to its clients. Close monitoring of the credit quality of the loan portfolio continues and customers with early arrears are identified and offered solutions.

The Group’s medium term strategic objectives remain focused on further strengthening its balance sheet, improving the quality and efficiency of its assets, further strengthening its capital position and increasing its operating profitability through the prudent increase of its loan portfolio which will increase both interest and fee income, as well as the diversification of income streams from fee generating activities.

For 2021, new lending was limited, primarily due to the uncertainties created by the pandemic, lower economic activity and focus on supporting affected clients. Opportunities for new good quality lending are expected to increase as economic activity returns to normality, although the effects of Russian-Ukraine conflict that was intensified since February 2022 are still uncertain. At the same time, the Group aims to enhance the efficiency of its assets and maintain an appropriate return on its loan portfolio.

The Group continues to manage its deposit base prudently in order to maintain healthy liquidity ratios and at the same time manage the cost of funding taking into advantage the confidence of the market in the sector. During the last years the group has experienced a significant reduction in the cost of deposits with the introduction of liquidity fees for certain groups of clients.

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

The Group continues to invest in upgrading its technologies and systems that support the implementation of its business strategy and its digital transformation objectives. Digital transformation initiatives have been accelerated as a result of COVID 19. Main actions include upgrading of the core banking system, introduction of peripheral systems to enhance automation of processes, streamlining of processes to improve efficiency and the enhancement of digital channels as well as promote increase of their usage (which has increased significantly as a result of COVID 19).

Emphasis is also placed on ensuring the effectiveness of the Bank’s risk management and compliance frameworks through prudent risk policies and measures. At the same time the Group aims to enhance its organisational resilience supported by an effective corporate governance aligned with the Group’s priorities.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

The European Union is at the vanguard of Environmental Social and Governance ("ESG") measures and the European banking sector is expected to facilitate and be a significant contributor towards the success of these initiatives. The European Union has also made available to member states the Recovery and Resilience Facility, which is the key instrument at the heart of NextGenerationEU and aims to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions. The Facility is closely aligned with the Commission's priorities to ensure in the long term a sustainable and inclusive recovery that promotes the green and digital transitions. Cyprus is expected to benefit €1,2 billion from this facility. Cyprus' recovery and resilience plan approved in July 2021, should be implemented by 2026 and includes measure to address the challenges and reap the benefits of the green and digital transitions such as reforms, new policies and support investments towards a greener and more sustainable economic recovery. Cyprus received €157 million in EU recovery fund pre-financing in September 2021. The bulk of the funds are expected to be released in 2022-2024 depending on the strict implementation of reform priorities agreed with the EU. These include, increasing the efficiency of public and local administrations; improving the government of state-owned enterprises; reducing further the levels of non-performing loans in the banking sector; improving the efficiency of the judicial system; and accelerating anti-corruption reforms.

In 2020, the COVID-19 pandemic caused a massive external shock to the economy and its impact spread over several sectors of production. During 2021, the restriction measures for the containment of COVID-19 were far less strict, allowing the restart of most of the economic sectors of the economy, aided by better international travel conditions. The return to growth was strong in 2021, with real GDP growth reaching 5,5% compared to an average of 5,3% in the EU27 and the Euro area. Strong growth was expected to continue going forward in 2022. However, economic conditions in 2022 are proving even more challenging with the onset of the Russian invasion in Ukraine at the beginning of the year.

Even before the onset of the Russian-Ukraine war and despite the more favourable prospects, economic conditions were affected by the onset of an increase in inflation in late 2021 and problems in supply chains as an aftermath of the pandemic. The increase in inflation in 2021, attributed mainly to increases in the price of energy, was initially viewed as temporary, albeit more persistent than expected, due to factors such as base effect, supply bottlenecks and supply-demand shifts. The Ministry of Finance projects that the economy will present a slowdown in 2022 due to the Russian-Ukraine conflict, turning to recovery trajectory again from 2023 onwards. Real GDP growth is forecast at 2,7% in 2022, 3,8% in 2023 and 3,4% in 2024.

The crisis in Ukraine may have an adverse impact on the Cypriot economy, partly due to a negative impact on tourism. This impact will depend on the duration and severity of the crisis which remain uncertain at this stage. In response, the Government is working to replace tourist arrivals from Russia and Ukraine (which amounted to approximately 20% of 2019 levels) through the promotion of domestic tourism and arrivals from other markets. Close monitoring of exposures to the tourism sector is enhanced and the Management of the Group engages actively with its customers to offer solutions and required support. More details are disclosed in note 44 to the consolidated and stand-alone financial statements.

MANAGEMENT REPORT (continued)

BRANCHES

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

MANAGEMENT BODY

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

Mr. Christodoulos Patsalides, Chairman and Directors George Loizou, George Pavlides, Avgoustinos Papathomas, Christodoulos Plastiras and Stella Avraam served on the Management Body throughout the year 2021. Mr. Loucas Marangos, was appointed on 21 July 2021, as Chief Executive Officer and member of the Board, Ms. Stalo Koumidou, Mr. Andreas Hadjikyrou and Mr. Konstantinos Mitropoulos were appointed members of the Board on 2 February 2022, 3 March 2022 and 29 April 2022 respectively.

Mr. Neoclis Nicolaou resigned on 19 February 2021 and Mr. Wahid Pierre Chammas resigned on 8 June 2021.

The members of the Management Body express their thanks to Messrs. Wahid Pierre Chammas and Neoclis Nicolaou for their valuable contribution.

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2022, one third of the directors serving (those with longest service since their last appointment) will be due for retirement and being eligible, will offer themselves for re-election.

CORPORATE GOVERNANCE REPORT

1. Introduction

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

Another key objective of the Corporate Governance Framework is to ensure compliance with the applicable legal and regulatory requirements. The Group is subject to the Directive on Internal Governance of Credit Institutions of 2021 (the 'CBC Governance Directive').

Details on how the Group has applied the provisions of the CBC Corporate Governance Directive are provided in this report.

The Board aims to adopt a robust corporate governance framework with clearly defined lines of responsibility which promote segregation of duties and limit conflicts of interest as well as effective processes to identify, manage, monitor, control and report the risks to which the Group is or might be exposed to. In this respect, the Group has adopted the three lines of defence framework for risk management and risk oversight.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

1. Introduction (continued)

The Board has delegated authority to committees of the Board to support its oversight of risks and controls. The Committees are the Audit Committee ('the AC'), the Risk Committee ('the RC'), the Nomination and Remunerations Committee ('the NRC') and the Credit Committee ('the CC'). Details of these Committees are provided in the sections to follow. The Chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meeting of the Board and minutes of these meetings are tabled to the Board as soon as possible for noting and/ or discussion, as necessary. The Committees terms of reference are available on the Bank's website www.cdb.com.cy.

The Corporate Governance Framework is reviewed by the Board on an annual basis.

2. Board of Directors

The authorities of the members of the Board derive from the Articles of Association of the Bank as well as the prevailing Companies and Banking Laws and the Directives of the Central Bank of Cyprus (CBC). The role of the Board and its committees is described in the Policies and Procedures of the Board that are annually reviewed to include all responsibilities that emanate from the regulatory framework and best practices.

The Board is collectively responsible for ensuring that the management maintains an appropriate system of internal controls which provides assurance for effective operations, internal controls and compliance with rules and regulations. It has the overall responsibility for the Group's long-term success; It approves and oversees the implementation of the Group's strategy and sets the strategic objective and the risk appetite to support the strategy implementation.

2.1. The role of the Board of Directors

The Board's role is to provide effective leadership to the Group and promote the Group's vision, values, culture and behavior, within a framework of prudent and effective controls, which enable risk to be identified, assessed and managed. The Board has the primary responsibility for setting the strategy of the Group and ensuring that the necessary human and financial resources are in place to meet the strategic and operational objectives. It has an overall responsibility for the Group and approves and oversees the implementation of the Group's strategic objectives, risk strategy and internal governance.

The Board has the overall responsibility for:

- Setting and overseeing the values and standards of the Group;
- Setting and overseeing the strategy of the Group;
- Setting and overseeing the business model of the Group;
- Maintaining an effective system of controls to ensure the effective operation of the Group and compliance with applicable laws and regulations;
- Setting the framework and policy for effective governance and oversight of the Group;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.1. The role of the Board of Directors (continued)

- Monitoring business performance against strategic objectives, risk appetite and expected standards.

The Board is responsible for ensuring that the Board and Committees composition and organization are appropriate for the delivery of value to shareholders and key stakeholders in a sustainable manner.

The Board is a decision-making body for all matters of importance because of their strategic, financial or reputational implications or consequences. Specific decisions and matters are reserved for approval by the Board. Such matters include, inter alia, setting of the Group's strategy and targets, approval of the annual budget, approval of capital and funding plans, decisions on important matters and material transactions, transactions with Board Members and Senior Executives or Shareholders, the appointment, replacement, transfer and removal from office of the heads of internal control functions, matters concerning the composition and organization of the Board and Board Committees, governance matters. A formal schedule of matters reserved for approval by the Board ensures that control of these key decisions is maintained by the Board. The schedule is reviewed annually and updated as necessary.

In addition, the Board is responsible for determining the nature and extent of the principal risks the Group is willing to assume in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight framework across the Group.

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects, including in relation to the annual financial statements, other reports and reports required by regulators and by law.

Leadership

There is a clear separation between the role of the Chairman who is responsible for the leadership and effectiveness of the Board and the Chief Executive Officer ('CEO') who is responsible for the running of the Company's business. The clear division of responsibility is documented in the policies and procedures of the Board which have been approved by the Board. The day-to-day operations of the Group have been delegated to management.

Role of the Chairperson

The Chairman ensures the effective functioning of the Board on all aspects of its role including:

- Providing leadership to the Board;
- Ensuring that the Board determines the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy;
- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making;
- Encouraging the active participation of members of the Board;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.1. The role of the Board of Directors (continued)

Role of the Chairperson (continued)

- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision making and voting on any matter on which they may have a conflict of interest;
- Maintaining effective communication with supervisory authorities, shareholders and other key stakeholders;
- Ensuring that adequate time is allowed for discussion of complex or contentious or strategic issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion;
- Promoting high standards of corporate governance.

Role of the CEO

The CEO is responsible:

- To develop and present to the Board the strategy of the Group;
- To execute the approved strategy;
- To lead the senior management team in the day-to-day running of the business;
- Accept accountability for the performance of the management team and the delivery of the strategy agreed by the Board;
- Set an example to the Group's employees and communicate to them the expectations of the Board in relation to the Group's culture, values and behaviour;
- To make decisions on matters affecting the operations, performance and strategy of the Group's business with the exception of those matters reserved for the Board.

2.1.1. Information Support

The Board meets on a regular basis and has a formal schedule of matters for consideration which is reviewed annually. The Board receives regular reports and presentations from CEO and other senior management on strategy and developments in the operations of the Group. The Board is regularly provided with reports on the Group's risk exposure, risk appetite, top and emerging risks, risk management, credit exposures and the Group's loan portfolio, NPE management, asset and liability management, liquidity, financial position as well as compliance and reputational issues.

Under the supervision of the Chairman of the Board, the Company Secretary's responsibilities include facilitating the flow of information with the Board and its Committees, as well as between senior management and non-executive directors and between heads of control functions and non-executive directors.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.1. The role of the Board of Directors (continued)

2.1.1. Information Support (continued)

All members of the Board have access to the advice and services of the Company Secretary, who can provide relevant information related to Board procedures and relevant regulatory requirements. The Directors also have access to the advice of the Group's external legal advisors and to independent professional advice at the Group's expense if and when required. Committees of the Board have similar access. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

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

2.2. Composition of the Management Body

As at 31 December 2021 the Board comprised of seven (7) Directors: the Chairman who is independent, two (2) executive Directors and four (4) non-executive Directors. The four (4) of the non-executive Directors were independent. The names and brief biographical details including each Director's background, experience and status are set out in section 4 below.

Mrs. Stalo Koumidou joined the Board on 2 February 2022, Mr. Andreas Hadjikyrou on 3 March 2022 and Mr. Konstantinos Mitropoulos on 29 April 2022. The Board has nominated two (2) new Directors, for whom CBC approval is pending.

The composition of the Board should be appropriate in terms of structure, size, tenure, skills, knowledge, experience and diversity (e.g. age, gender, etc) and the Board and its Committees should comprise of Directors who have a broad perception of the Group's activities and the risks associated with them, in order to effectively steer the Group. We believe that a Board with the right balance of skills, experience and diversity is critical to the sustainable delivery of value to our shareholders and other key stakeholders and we are confident that the recent changes to the composition of the Board will be supportive of this objective. The new appointments complement the experience and market insight of existing Members and bring additional expertise in the areas of Corporate Banking, Corporate Finance, Financial Markets and Corporate Governance.

The Board through its annual performance evaluation process reviews its structure, size and composition (including collective skills, knowledge, experience, independence and diversity). The process is executed by the Nomination and Remunerations Committee which makes recommendations to the Board as required.

The Members of the Board are required to confirm, on an annual basis, any changes in their circumstances in respect of their compliance with the CBC Suitability Directive of the members of the management body and Key Function Holders.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.1. Meetings of the Management Body

The Board with the support of the Company Secretary prepares an annual Schedule of Board meetings. All members have the opportunity to prove input in the formulation of the Schedule. The process aims to ensure that sufficient time is allocated to important matters and that regulatory obligation are addressed in a timely manner. Matters may be added to agendas in response to external events, non-executive directors' requests and regulatory initiatives, etc.

Board meetings have certain standing items such as a report from the Chief Financial Officer on Group's performance and updates from other senior management members.

During 2021 the Board held 17 meetings. Details on the number of meetings of the Board and its committees and attendance of individual Directors are set out below.

	MB	Risk Committee	Audit Committee	NR Committee	Joint Risk&Audit Committee	Credit Committee
Total Meetings - 2021	**17**	**7**	**13**	**7**	**4**	**14**
Christodoulos Patsalides	15	-	-	6	-	-
George Loizou	16	7	-	7	4	14
George Pavlides	17	7	13	-	4	11
Avgoustinos Papathomas	16	-	13	7	4	14
Christodoulos Plastiras	16	6	12	-	3	13
Loucas Marangos	8	-	-	-	-	-
Stella Avraam	17	-	-	-	-	-

New appointments

Mr. Loucas Marangos appointed on 21 July 2021.

Mr. George Pavlides was appointed as Member and Chairman of the Credit Committee on 1 March 2021.

Resignations

Mr. Neoclis Nicolaou resigned on 19 February 2021.

Mr. Wahid Chammas resigned on 8 June 2021.

In the evaluation of the structure and composition of Committees cross-committee membership is considered important factor. Common committee membership facilitates effective governance across all finance and risk issues. In addition, agendas can be aligned and overlap of responsibilities can be avoided. The below table shows the number of cross-memberships of Non-Executive Directors across Board Committees as at 31 December 2021.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.1. Meetings of the Management Body (continued)

Agendas and papers are circulated to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them enough time to review the relevant information and to enable them to fully discharge their duties. The Board makes full use of technology such as teleconferencing and a Board portal. This provides greater flexibility, security and efficiency in Board paper distribution and meeting arrangements.

Minutes and matters arising from the meetings are produced and circulated to the directors for review and feedback. A formal procedure has been adopted for following up matters arising through relevant updates in frequent intervals.

Cross Committee Membership Matrix

	Audit Committee (3 Members)	Risk Committee (3 Members)	Nominations and Remuneration Committee (3 Members)	Credit Committee (4 Members)
Audit Committee	N/A	2	1	3
Risk Committee	2	N/A	1	3
Nomination and Remunerations Committee	1	1	N/A	2
Credit Committee	3	3	2	N/A

2.2.2. Conflicts of interest

The Group's conflict of interest policy which also applies to Directors, sets out how conflicts of interest are to be identified, reported and managed to ensure that the Directors as well as all officers and employees of the Group, act at all times in the best interests of the Group. The policy also sets out their duty to avoid, manage and disclose actual, potential or perceived conflicts of interest. The policy is reviewed on a regular basis and is communicated throughout the Group.

The Board policies and procedures specify requirements specifically relating to Directors' conflicts of interest, and sets out how these are to be identified, reported and managed to ensure that the Directors act at all times in the best interests of the Company.

A conflicts of interest declaration is signed by all Directors on an annual basis.

Related party transactions are disclosed in note 41 to the financial statements.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.2. Composition of the Management Body (continued)

2.2.3. Time commitment

The Group expects non-executive Directors to devote sufficient time to discharge their duties. Time devoted to the Group can vary considerably depending on Directors serving on Board committees. The Board's policies and procedures define the time commitment expectations for each role. Certain non-executive directors such as the Vice Chairman, the SID and committee chairmen are required to allocate additional time in fulfilling those roles.

The NRC considers whether the potential Director is able to devote the requisite time and attention to the Group's affairs prior to the Board's approval of the individual's appointment. The NRC considers in its assessment the directors' other professional obligations including other executive and non-executive directorships.

The directors hold positions on the management bodies of other companies as noted in their biographical details included in section 4 of this report. Such participation does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company. Additional external appointments require the prior approval of the Board. It is estimated that in 2021, each non-executive director spent at least 60 days on board-related duties.

2.3. Board Balance and Independence

The CBC Governance Directive defines the minimum requirements for Board Members independence so that no individual or small group of individuals can dominate the Board's decision-taking.

The NRC and the Board consider the independence status of each Director on appointment. In addition, the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence remains appropriate.

In 2021 the Board considered the principles relating to independence contained in the CBC Suitability Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 4 of this report.

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

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.1. Appointments to the Board

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

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

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

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

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

2.3.2. Directors inductions and ongoing development

Induction programs, with particular emphasis on risk management and internal control systems are arranged for newly appointed Directors. The programs also include a series of meetings with senior executives and other Directors to enable new Directors to familiarize themselves with the business, management and governance structure including the function of the Board and the role of the committees, key risk of the Group and the risk management Framework.

In addition, the Company Secretary is responsible, under the supervision of the Chairman, to develop training programs based on the Director's individual needs. Following appointment, each Director receives a relevant package and undergoes an induction program.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.2. Directors inductions and ongoing development (continued)

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

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

During 2021, training materials and training sessions were provided to Directors, amongst other, on resolution planning and MREL, AML and CTF, trends in the Banking Sector, Cyber Security Oversight, Board Practices, technology transformation of Banks. Directors receive regular newsletters issued by Deloitte Center for Board Effectiveness and attend training events provided by the Florence School of Banking and Finance.

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors.

In the performance of their roles, executive Directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management.

The Company Secretary provides the Board with guidance on Board procedures and dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal Board process.

2.3.3. Board Performance Evaluation

The Board reviews annually its effectiveness and that of its committee as well as the performance of the Chairman and individual Directors in order to improve its operations. The objective of these evaluations is to review past performance and identify opportunities for improvement and maximize strengths. The aim of the assessments is to determine whether the Board and its committees as a whole is effective in discharging its responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.3. Board Performance Evaluation (continued)

The Board is subject to external evaluation every three years. The last external review was conducted by PWC in 2021. The Board also conducted an internal evaluation in December 2020, with the support of the NRC and the Company Secretary. The review included an evaluation of the Board, each committee, the Chairman and each Director through the completion of a series of online questionnaires by each Director. The Directors views on a range of issues including amongst other strategy, performance monitoring, reporting, risk and control, board composition and size, balance of skills, culture and communication, board agendas, quality and timeliness of information and training of Directors were obtained and assessed. The assessment also included a collectively suitability assessment which followed the guidelines issued by the CBC and the EBA.

The outcome of the Board evaluation was considered by the NRC and collectively discussed by the Board. The recommendations made were intended to enhance Board processes, although they were not material to the effectiveness of the Board. The Board endorsed them and prepared an action plan to adopt them.

The Chairperson of each Board Committee led review of the results of the self-assessment process in respect of committee performance through formal discussion at committee meetings.

The self-assessment concluded that the Board remains effective in discharging its responsibilities, the effectiveness of board committees was assessed adequate, the Chairman's performance evaluation concluded that Christodoulos Patsalides creates an environment that encourages contribution from all Board members, leads the Board effectively and whilst maintaining an appropriate meeting structure. The Directors were assessed as effective in their roles on the Board and as continuing to demonstrate high commitment to their role and independence of mind.

The Directors are aware that in case they have material concerns about the overall governance of the Group, they should report them to the Board and if these concerns are not satisfactorily addressed to the CBC.

2.3.4. Loans to Directors and other transactions

Details of loans to Directors and other transactions with the Group are set out in note 41 to the financial statements for the year ended 31 December 2021.

The Banking Law currently forbids the extension of any credit to independent members of the Board, but the CBC may exempt certain exposures from time to time having regard to the exceptionally low risk arising from the exposures concerned. Furthermore, any credit to be extended to non-independent members of the Board must comply with the following provisions of the Law:

- be approved by a resolution of the Board carried by a majority of two thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2. Board of Directors (continued)

2.3. Board Balance and Independence (continued)

2.3.4. Loans to Directors and other transactions (continued)

- the exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice;
- the total value of exposures in respect of all members of the Board should not exceed at any time 10% of CDB Banks's own funds, or such other lower percentage as the CBC may determine from time to time;
- the total value of any unsecured exposures granted to all members of the Board should not exceed at any time 1% of the CDB Bank's own funds or such other lower percentage as the CBC may determine from time to time;
- the total value of exposure to any member of the Board should not exceed at any time the amount of €500.000 or such other lower amount as the CBC may determine from time to time;
- no financing is permitted to any executive member of the Board that does not comply with the commercial terms or exceeds the limits that apply to all staff or such other lower amount as the CBC may determine from time to time.

Credit facilities extended to Directors of the Company or Directors of its subsidiaries should be granted in the normal course of the Company's business, under normal commercial and employment terms and with transparency. All relevant cases of credit facilities to Company Directors and the Directors of its subsidiaries are submitted for approval to the Board after the recommendation of the Credit Committee. The interested Director is not present and does not participate in the discussion and approval process.

3. Internal controls

The Board is responsible for the adequacy and effectiveness of the system of internal controls in the Group. This system aims to ensure:

- The effectiveness of the governance framework is monitored, and periodically assessed and appropriate steps are taken to timely address any deficiencies;
- The appropriate compliance framework is in place;
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate;
- The appropriate information security framework for the protection of confidential information is in place;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

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

The overall internal control systems of the Group include:

- A transparent organisational structure with clear reporting lines to Senior Management and the Board;
- Three lines of defence model for the management of risks across the Group;
- Board and Executive Committees with clear responsibilities;
- Policies and procedures;
- Monthly reporting by business lines to enable progress to be monitored, trends to be evaluated and variances to be acted upon;
- Monthly meetings of ExCo (Executive Committee) to review performance;
- A Code of Conduct setting out the standards expected of all officers and employees;
- A Whistleblowing Policy including processes and procedures to be followed for independent investigation of concerns raised by staff.

The Board through the AC and the RC, receives the results of reviews conducted by internal and external parties through which it assesses the effectiveness of the Group's internal control, risk management and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information used for internal and regulatory reporting. The reviews cover financial, operational and compliance systems of internal controls, as well as risk management systems. In addition, the AC and RC receive business and operational risk assessments, regular reports from the Group's Internal Auditor, the Chief Compliance Officer and Chief Risk Officer, internal and external audit reports, as well as regulatory reports.

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

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

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

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

3.1. Group code of conduct and whistleblowing policy

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

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

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

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

4. Members of the Management Body

4.1. Non-Executive Directors

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

Term of Office: Appointed to the Board of Directors on 10 March 2020
Independent: Yes
Member of a Board Committee: Nomination and Remunerations Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

George A. Loizou (Vice Chairman)
Born in 1953. He is an experienced banker and risk management professional with extensive experience in operational risk management. He is a graduate of the Dale Carnegie Leadership Course with specialisation in Management. He is also an Associate of the London Institute of Banking and Finance, and a Professional Member of the Institute of Operational Risk Management (PIOR), UK as well as a Certified Trainer by the HRD. In 1973 he joint Barclays Bank PLC (Cyprus) where he worked at various positions. From 1996 to 2013 he was employed by Hellenic Bank PLC's where he served at various managerial positions before becoming the Group's Operational Risk Manager. He also served as a member of the Risk Management Committee of the JCC Payment Systems. Following his retirement from Hellenic Bank he assumed consultancy and training projects for renowned institutions in Cyprus, in the areas of Banking and Risk Management.

Term of Office: Appointed to the Board of Directors on 8 April 2015
Independent: Yes
Member of a Board Committee:
- Chairman of the Nomination and Remunerations Committee
- Risk Committee
- Credit Committee

George Pavlides
Born in 1953. He is a UK qualified Chartered Accountant of the Institute of Chartered Accountants in England and Wales since 1977. He spent his earlier career with top 4 audit firms Deloitte & Touche and Ernst & Young. Subsequently he moved into the business sector where he held senior managerial positions with several large international organisations including the AG Leventis Group, Agip (Hellas) and Raychem Corp. (US). Between 2000 and 2008 he was employed as Deputy General Manager and subsequently Branch Manager at DEPFA Bank PLC (Cyprus Branch). He is currently a Financial Administrator for the Leonidas Ioannou family.

Term of Office: Appointed to the Board of Directors on 8 April 2015
Independent: No
Member of a Board Committee:
- Chairman of the Credit Committee from 1 March 2022
- Audit Committee
- Risk Committee Chairman up to 28 February 2022 and Member from 1 March 2022

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

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

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

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

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Stalo Koumidou
Born in 1981. Holds a BSc (Hons) Financial and Business Economics from Royal Holloway University of London and a MSc Finance and Economics from London School of Economics and Political Science. She has extensive experience covering all aspects of the financial sector, with dedicated expertise in the local and European capital and debt markets, public takeovers, investment banking transactions and corporate financial advisory. She also possesses in depth knowledge of the EU harmonised regulatory environment for investment firms, publicly listed entities and funds. Her recent professional experience includes the position of Manager Investment Banking with The Cyprus Investment and Securities Corporation Ltd of Bank of Cyprus Group. She is currently an independent financial advisor and a member of the board of directors of Cosmos Insurance Public Company Ltd.

Term of Office: Appointed to the Board of Directors on 2 February 2022
Independent: Yes
Member of a Board Committee:
- Nomination and Remunerations Committee
- Risk Committee
- Credit Committee

Andreas Hadjikyrou
Born in 1977. He is the founder of 7Q Investment Group a leading boutique asset manager and institutional investor. Currently he is the Chief Investment Officer Director of 7Q Asset Management Ltd, responsible for implementing the general investment policy for each managed AIF as well as the overall strategic asset allocation and tactical investment strategy. Mr. Hadjikyrou brings in excess of twenty years of experience in the field of Asset Management, Investments and Finance. He played a leading role in expanding the 7Q Investment Group overall footprint on the institutional investors landscape in Cyprus, including creating the biggest Cyprus AIF investing in local assets. He is a holder of MBA in International Banking and Finance from the University of Birmingham, UK.

Term of Office: Appointed to the Board of Directors on 3 March 2022
Independent: No
Member of a Board Committee:
- Nomination and Remunerations Committee
- Risk Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

4. Members of the Management Body (continued)

4.1. Non-Executive Directors (continued)

Konstantinos Mitropoulos
Born in 1955. He is currently a member of the Board of Directors of the listed companies PLAISIO S.A., MOTODYNAMICS S.A. and of ELTRAK S.A. and the Institute of Economic and Industrial Studies (IOBE). He has served as Chairman of the Board of Directors of ATTICA BANK, as Chief Executive Officer at PQH, the Single Special Liquidator of 16 failed banks and as Executive Director and Executive Board Member of PwC Greece. Mr. Mitropoulos was the first Chief Executive Officer of the Hellenic Republic Asset Development Fund, the privatisation agency, Executive Chairman of Eurobank EFG Equities and the founder and Executive Chairman of KANTOR Management Consultants S.A. He has served as a member of the Board of Directors of the Hellenic Bank Association, the Athens Stock Exchange, NIKAS S.A., Logic DIS S.A. and was a long-standing member of the Global Advisory Council of the London Business School. Mr. Mitropoulos is a mechanical and electrical engineer from the National Technical University of Athens, with post graduate studies in Business Administration and Economics, holding an MSc from Imperial College and a PhD from the London Business School.

Term of Office: Appointed to the Board of Directors on 29 April 2022
Independent: Yes

4.2. Executive Directors

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

Term of Office: Appointed to the Board of Directors on 21 July 2021
Independent: No
Member of a Board Committee: None

Stella Avraam (Executive Director – Group CFO, Acting CEO from 1 December 2020 to 20 July 2021)
Born in 1965. She is an experienced banking professional having served in the banking sector for more than 25 years in various positions within the Finance Division setting. She serves as the CFO of the Cyprus Development Bank PLC since October 2016, while previously she was the Chief Accountant since January 2009. She also serves at the Board of Directors of a number of subsidiaries of the Group. She is a qualified Accountant and a member of the Association of Chartered Certified Accountants and the Institute of Certified Public Accountants of Cyprus. She also holds an MBA from the Cyprus International Institute of Management.

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees

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

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

The Chairman of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings. This linkage is important between the committees as it ensures alignment of the work conducted by the various committees. Furthermore, cross membership is encouraged as it ensures alignment of the work performed by the Committees as well as to avoid duplication of responsibilities. Committees may also hold joint meetings to discuss items of common interest such as the AC and RC discussion and review of impairment or risk appetite for AML and CTF risks.

5.1. Nomination and remunerations committee (NRC)

The NRC comprised three (3) independent non-executive Directors at 31 December 2021.

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

The Committee held 7 meetings in 2021. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

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

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

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board);
- Directors' development;
- Chairperson development (under the overall responsibility and supervision of the SID);
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual Directors, and
- Succession planning for Directors and senior management;
- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results;

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

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

- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies;
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues;
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices and the CBC Governance Directive.

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

5.2. Audit committee (AC)

As at 31 December 2021, the AC comprised of three (3) non-executive Directors, two (2) of whom, including the Chairman of the Committee, were independent. Two of the members of the Committee are also members of the RC, while the Chairman of the Committee, who has extensive experience in the audit profession is also a member of the NRC and the Credit Committee.

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

The Committee held 13 meetings in 2021. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

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

The role of the Committee, inter alia, is:

- To oversee the system of internal controls including reviewing its effectiveness;
- To monitor the integrity of the Group's financial statements;
- To monitor the effectiveness of the internal audit function;
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor;
- To review the Group's and Company's financial and accounting policies and practices;
- To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory/ethics compliance; and
- To make recommendations to the Board on such matters.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.2. Audit committee (AC) (continued)

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

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

5.2.1. Internal audit independence

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

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

5.3. Risk committee (RC)

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

The RC on 31 December 2021 comprised three (3) non-executive Directors, two (2) of which are independent. The Chairman of the Committee is a Member of the Audit and Credit Committees, while the Chairman of the Nomination and Remunerations Committee is also a Member of the Risk Committee and all Members of the Committee are also Members of the Credit Committee.

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

The Committee held 11 meetings in 2021. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and risk appetite remain appropriate. Specifically, it:

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.3. Risk committee (RC) (continued)

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

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

Information relating to Group Risk Management is set out in note 37 to the financial statements.

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

5.4. Credit Committee (CC)

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

The CC on 31 December 2021 comprised four (4) non-executive Directors, of whom three (3) were independent. Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 14 meetings in 2021. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1. Cross Committee membership with RC is considered important and three members of the Committee are also Members of the RC.

The main purpose of the Committee is to review, on behalf of the Board, individually significant exposures for both new lending and restructuring within approval authorities reserved by the Board and to ensure that the risk profile of such exposures is in line with the risk appetite for credit risk, risk strategy and credit risk policies.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees (continued)

5.4. Credit Committee (CC) (continued)

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

6. Remuneration policy

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CBC Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 as revised in October 2021 and which incorporates the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the EBA Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions pertinent to the banking sector currently.

The remuneration of non-executive Directors is determined and approved by the Board. Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The remuneration of non-executive directors is not linked to the profitability of the Group. It is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the committees of the Board and any participation in the boards of Group subsidiary companies. The remuneration of non-executive directors is approved annually by the AGM.

The remuneration of executive directors is set out in their contracts of employment unless any of the executive directors is an appointed member of the senior management team, in which case the terms of employment are based on the provisions of the collective agreement in place, excluding the CEO.

7. Shareholders relations

One of the responsibilities of the Chairman of the Board is to ensure that the views, issues and concerns of shareholders are effectively communicated to the Board and to ensure that Directors develop an understanding of the views of major investors. The SID is available to shareholders if they have concerns that are not resolved through the normal communication channels.

All shareholders of the Company are treated on an equal basis. There are no shareholders with special control rights. Shareholders are informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

Any change or addition to the Articles of Association of the Company is only valid if approved by special resolution at a meeting of the shareholders.

Details of the shareholders are disclosed in note 40 to the financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 41 to the consolidated and stand-alone financial statements.

MANAGEMENT REPORT (continued)

EVENTS AFTER THE REPORTING PERIOD

Disclosed in note 44 to the consolidated and stand-alone financial statements.

INDEPENDENT AUDITORS

The independent auditors of the Group, Deloitte Limited, have informed the Bank of their willingness to continue in office and a resolution authorising the Management Body to fix their remuneration will be submitted to the Annual General Meeting.

By the order of the Management Body

Christodoulos Patsalides
Chairman

Nicosia, 9 June 2022

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INVESTORS IN PEOPLE
We invest in people Platinum

Deloitte Limited
Maximos Plaza
Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O. Box 58466
CY-3734 Limassol, Cyprus

Tel: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

Independent Auditor's Report

To the Members of The Cyprus Development Bank Public Company Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The Cyprus Development Bank Public Company Limited and its subsidiaries (the "Group") and the separate financial statements of The Cyprus Development Bank Public Company Limited (the "Bank"), which are presented in pages 43 to 166 and comprise the consolidated and separate statement of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and the Bank as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We remained independent of the Group and the Bank throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

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

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

Key audit matters	How our audit addressed the Key audit matters
Impairment losses for loans and advances to customers	
Loans and advances to customers held at amortised cost amounted to €263 million at 31 December 2021 (€289 million at 31 December 2020) and accumulated impairment losses amounted to €49 million for the year ended 31 December 2021 (€62 million at 31 December 2020). The Group and the Bank calculate expected credit losses on loans and advances to customers (accumulated impairment losses) on both an individual and on a collective basis. The estimation of expected credit losses ("ECL") on loans and advances to customers is considered a key audit matter given the magnitude of the specific account balance, the high degree of judgement exercised by Management and the existence of estimates with a significant level of subjectivity and complexity. The most significant Management judgements and estimates, relate to: • The criteria and assumptions used for the classification of loans and advances into stages (stage 1, 2 and 3), • Accounting interpretations, assumptions and input data used in the models that calculate the ECL, including the assumptions relating to the estimation of probability of default, loss given default and exposure at default, • Identification of significant increase in credit risk, • Assumptions for determination of expected future cash flows of individually assessed exposures, including the selection of assessment approach and valuation and time of realisation of collaterals,	Based on our risk assessment and following a risk-based approach, we performed, inter alia, the following audit procedures: • We assessed the appropriateness of the impairment provisioning methodologies, interpretations and policies adopted by Management in relation to the calculation of expected credit losses ("ECL") on loans and advances to customers under IFRS 9 "Financial Instruments". • We assessed the design and implementation of internal controls relevant to ECL, including controls around methodologies applied and judgements and estimates employed by Management, as well as internal controls over the valuation of collaterals. In addition, we assessed the operating effectiveness of internal controls relevant to the staging classification of loans and the measurement of the ECL of credit impaired loans that have been individually assessed for impairment according to Group's methodology. • For collectively assessed loans and advances to customers, with the support of our internal credit risk specialists, we tested the assumptions, input and formulas used in the calculation of ECL according to the Group's and Bank's methodology and independently performed ECL recalculation and compare against Group's own calculations. • We assessed the reasonableness and appropriateness of the macroeconomic variables used in the models, the scenarios and the probability weights applied on them. • On a sample basis, we assessed the reasonableness of significant assumptions used in the measurement of ECL on individually assessed exposures, including the assumptions over valuation of collaterals, future realizable value of collaterals and expected future cash flows.

Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

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

Key audit matters	How our audit addressed the Key audit matters
Impairment losses for loans and advances to customers (continued)	
• The parameters and the assumptions used in the determination of the macroeconomic scenarios and the respective weighted probabilities applied, • The adjustments made by Management on the ECL models in order to address model limitations, as well as to incorporate events that are not reflected in the models. These post model adjustments involve inherent uncertainty and significant level of Management judgement. Refer to notes 3.12, 4, 17 and 37 of the consolidated and separate financial statements for the significant accounting policies of the Group and the Bank, the critical accounting estimates and judgements used in the estimation of the ECL on loans and advances to customers and further details in relation to credit risk management.	• On a sample basis, with the support of our real estate specialists, we assessed the appropriateness of the assumptions and data used in the valuation of the collateral properties. • We assessed the appropriateness of the criteria and significant assumptions used by the Management for the staging classification of loans and advances to customers according to IFRS 9. Our audit work included the assessment of the criteria set by Management for the timely recognition of the significant increase in credit risk. We obtained the relevant evidence and we assessed, on a sample basis, the timely identification of exposures with significant increase in credit risk and the timely identification of credit impaired exposures. • We assessed the appropriateness of post model adjustments, taking into account the data, judgements, methodology and governance over these adjustments. • We assessed the completeness and accuracy of the disclosures in the financial statements in accordance with the relevant accounting standards (IFRSs). The above audit procedures were completed in a satisfactory manner.

Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

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

Key audit matters	How our audit addressed the Key audit matters
Going Concern	
The Group continued to be loss making during 2021 recognising a loss for the year after tax of €1,3 million (2020: €3,4 million) in the consolidated income statement. However, the overall capital adequacy ratio as at 31 December 2021 is above the minimum total capital requirements set by the Central Bank of Cyprus. The Board of Directors of the Bank concluded that the adoption of the going concern basis in preparing these financial statements is appropriate and that no material uncertainties exist relating to events or conditions that individually or collectively may cast significant doubt on the Group's and Bank's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future for at least twelve months from the date of approval of these financial statements and recent approved business and financial plan, including stress scenarios and the evolution of the current and future regulatory capital and liquidity ratios against minimum regulatory requirements. The development of forecasted financial and capital plan, performance, the stress scenarios and future course of action require significant management judgement and consideration of the impact of the current economic risks arising from the Covid-19 pandemic and the recent geopolitical developments in Eastern Europe after the commencement of conflict between Russia and Ukraine. We have considered the Group's assessment on the going concern assumption as a key audit matter due to the ongoing focus on the capital adequacy for the Group, as well as the judgements and assumptions incorporated in the forecasts where the going concern assessment is based on. Refer to notes 2.1 and 37 and of the consolidated and separate financial statements for the basis of preparation of the consolidated and separate financial statements and further details in relation to capital and liquidity management.	Based on our risk assessment and following a risk-based approach, we performed, inter alia, the following audit procedures with the support of our capital management and regulatory support specialists: • We obtained an understanding of management process relating to the development of the financial and business plan and assessed management ability to perform forecast, by comparing actual results against prior year forecast. • We obtained the Directors' going concern assessment and related capital and financial plan and assessed whether events or conditions exist which may give rise to material uncertainties that may cast significant doubt on the Group's and Bank's ability to continue as a going concern. • We reviewed correspondence with the Central Bank of Cyprus ("CBC") regarding the regulatory capital and liquidity requirements, and other correspondence with Supervisory Review and Evaluation Process (SREP) regarding required regulatory ratios. • We obtained and critically assessed the financial and business plan significant assumptions included in the going concern assessment of the management. Our assessment focused on the future action plans for generating revenue, expected capital investment, loan origination and evolution of non-performing exposures and provisions for impairment. We also assessed the ability of the Bank to raise new capital based on previous historic track records and the demonstrated intention of the shareholders in injecting new capital to support the attainment of the business plan. • We evaluated the stressed scenarios performed by management and performed our own sensitivity on the main assumptions reflected in the financial plan. • We assessed the appropriateness and accuracy of the calculations of the capital adequacy ratios of the Group and the Bank as at 31 December 2021 and the forecast period of at least twelve months included in the going concern assessment, and compared against regulatory requirements of the Bank. • We assessed the completeness and accuracy of the related disclosures in the consolidated and separate financial statements in accordance with the relevant accounting standards (IFRSs). The above audit procedures were completed in a satisfactory manner.

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and Corporate Governance Report, which is included as a specific section in the Management Report, but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

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

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

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

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

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

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Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Report on other legal and regulatory requirements

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

Date of appointment and period of engagement
We were first appointed as auditors on 11 June 2021 by the Annual General Meeting of the Bank's members to audit the consolidated and separate financial statements for the year ended 31 December 2021 after the submission of related suggestion by the Board of Directors of the Bank.

Consistency of auditors' report to the additional report to the Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 7 June 2022 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-Audit Services

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

Other legal requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated and separate financial statements.
- In light of the knowledge and understanding of the Group, the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the Corporate Governance Report in accordance with the requirements of subparagraphs (iv) and (v) of the paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and is consistent with the consolidated and separate financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the Corporate Governance Report includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of the paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap 113,
- In light of the knowledge and understanding of the Group, the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Corporate Governance Report in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Independent Auditor's Report (continued)

To the Members of The Cyprus Development Bank Public Company Limited

Other matters

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

Comparative figures

The consolidated and separate financial statements of the Group and the Bank for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 7 June 2021.

The engagement partner on the audit resulting in this independent auditor's report is Andreas Georgiou.

....

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

Deloitte Limited
Certified Public Accountants and Registered Auditors

Limassol
9 June 2022

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Note	2021 €'000	2020 €'000
Turnover		13.730	17.530
Interest income calculated using the effective interest method	5	9.898	11.115
Interest expense calculated using the effective interest method	6	(1.107)	(1.287)
Net interest income		8.791	9.828
Fee and commission income	7	3.067	3.938
Fee and commission expense	8	(408)	(384)
Net foreign exchange gains	9	352	524
Other income	10	696	1.953
Total net income		**12.498**	**15.859**
Staff costs	11	(7.695)	(7.787)
Other operating expenses	12	(3.375)	(3.542)
Depreciation	13	(877)	(1.040)
Profit before provisions for impairment		**551**	**3.490**
Provisions for impairment	13	(1.120)	(6.184)
Loss after provisions for impairment		**(569)**	**(2.694)**
Share of loss from associates	21	(62)	-
Loss before tax		**(631)**	**(2.694)**
Tax	14	(679)	(660)
Loss for the year after tax		**(1.310)**	**(3.354)**
Loss for the year attributable to:			
Owners of the Bank		(1.330)	(3.343)
Non-controlling interests		20	(11)
Loss for the year		**(1.310)**	**(3.354)**
Basic and fully diluted loss per share (cent)	15	(3,07)	(7,72)

The notes on pages 55 to 166 form an integral part of the financial statements.

INCOME STATEMENT

For the year ended 31 December 2021

	Note	2021 €'000	2020 €'000
Turnover		13.521	16.222
Interest income calculated using the effective interest method	5	10.209	12.012
Interest expense calculated using the effective interest method	6	(1.101)	(1.281)
Net interest income		9.108	10.731
Fee and commission income	7	2.769	3.604
Fee and commission expense	8	(293)	(323)
Net foreign exchange gains	9	328	552
Other income	10	215	54
Total net income		**12.127**	**14.618**
Staff costs	11	(7.411)	(7.507)
Other operating expenses	12	(3.324)	(3.402)
Depreciation	13	(867)	(1.005)
Profit before provisions for impairment		**525**	**2.704**
Provisions for impairment	13	(1.275)	(5.525)
Loss before tax		**(750)**	**(2.821)**
Tax	14	(656)	(659)
Loss for the year after tax		**(1.406)**	**(3.480)**
Basic and fully diluted loss per share (cent)	15	(3,25)	(8,04)

The notes on pages 55 to 166 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 €'000	2020 €'000
Loss for the year		**(1.310)**	**(3.354)**
Other comprehensive income (OCI)			
Items that are or may be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)	19	(47)	(51)
Transfer to the income statement on disposal		-	(37)
		(47)	(88)
Total OCI that may be reclassified in the consolidated income statement in subsequent periods		**(47)**	**(88)**
OCI items not to be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net losses on investments in equity instruments designated at FVOCI	18	-	(129)
		-	(129)
Property revaluation reserve			
Gains from revaluation of premises	22	-	24
Deferred tax on revaluation of premises	28	98	(63)
		98	(39)
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		**98**	**(168)**
Other comprehensive income/(loss) for the year net of taxation		**51**	**(256)**
Total comprehensive loss for the year		**(1.259)**	**(3.610)**
Attributable to:			
Owners of the Bank		(1.279)	(3.597)
Non-controlling interests		20	(13)
Total comprehensive loss for the year		**(1.259)**	**(3.610)**

The notes on pages 55 to 166 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 €'000	2020 €'000
Loss for the year		**(1.406)**	**(3.480)**
Other comprehensive income (OCI)			
Items that are or may be reclassified in the income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)	19	(47)	(75)
Total OCI that may be reclassified in the income statement in subsequent periods		**(47)**	**(75)**
OCI items not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net losses on investments in equity instruments designated at FVOCI	18	-	(129)
Net gains/(losses) from revaluation of subsidiaries	20	114	(92)
		114	(221)
Property revaluation reserve			
Gains from revaluation of premises	22	-	24
Deferred tax on revaluation of premises	28	98	(63)
		98	(39)
Total OCI not to be reclassified in the income statement in subsequent periods		**212**	**(260)**
Other comprehensive income/(loss) for the year net of taxation		**165**	**(335)**
Total comprehensive loss for the year		**(1.241)**	**(3.815)**

The notes on pages 55 to 166 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	Note	2021 €'000	2020 €'000
ASSETS			
Cash and balances with central banks	16	166.985	186.928
Balances with other banks	16	3.266	59.719
Investments in debt securities	19	111.679	82.277
Loans and advances	17	214.470	227.235
Investments in equities	18	131	-
Investments in associates	21	672	-
Stock of property	24	9.702	10.225
Receivables and other assets	25	1.595	6.474
Premises and equipment	22	6.558	6.929
Intangible assets	23	806	871
Total assets		**515.864**	**580.658**
LIABILITIES			
Bank borrowings	26	2.749	3.171
Client deposits	27	437.808	524.281
Deferred taxation	28	346	440
Accruals and other liabilities	29	24.814	7.499
Loan capital	31	11.261	5.000
Total liabilities		476.978	540.391
EQUITY			
Share capital	32	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	19.435
Reserves		(673)	(4.053)
Equity attributable to owners of the parent company		38.683	40.085
Non-controlling interests		203	182
Total equity		38.886	40.267
Total liabilities and equity		**515.864**	**580.658**
Contingent liabilities and commitments	33	54.714	68.105

These Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 9 June 2022.

Mr. Christodoulos Patsalides
Chairman of the Board

Mr. Avgoustinos Papathomas
Member of the Board

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

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

The notes on pages 55 to 166 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	Note	2021 €'000	2020 €'000
ASSETS			
Cash and balances with central banks	16	166.985	186.928
Balances with other banks	16	3.193	59.635
Investments in debt securities	19	111.679	82.277
Loans and advances	17	214.470	227.235
Investments and exposures in subsidiary companies	20	9.363	13.782
Stock of property	24	1.331	529
Receivables and other assets	25	721	520
Premises and equipment	22	6.555	6.879
Intangible assets	23	806	862
Total assets		**515.103**	**578.647**
LIABILITIES			
Bank borrowings	26	2.749	3.171
Client deposits	27	437.808	524.281
Deferred taxation	28	346	440
Accruals and other liabilities	29	24.426	5.826
Loan capital	31	11.261	5.000
Total liabilities		476.590	538.718
EQUITY			
Share capital	32	8.655	8.655
Share premium		16.048	16.048
Capital reduction reserve		14.653	19.435
Reserves		(843)	(4.209)
Total equity		38.513	39.929
Total liabilities and equity		**515.103**	**578.647**
Contingent liabilities and commitments	33	54.714	68.105

These Financial Statements have been approved and authorised for issue by the Management Body on 9 June 2022.

Mr. Christodoulos Patsalides
Chairman of the Board

Mr. Avgoustinos Papathomas
Member of the Board

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

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

The notes on pages 55 to 166 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

2021	Attributable to the parent company's owners						Non-controlling interests	Total
	Share capital €'000	Share premium €'000	Capital reduction reserve fund €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000	€'000	€'000
Balance 1 January 2021	8.655	16.048	19.435	1.818	(5.871)	40.085	182	40.267
Correction in opening balance of subsidiaries reserves	-	-	-	(2)	54	52	1	53
Restated balance 1 January 2021	8.655	16.048	19.435	1.816	(5.817)	40.137	183	40.320
Total comprehensive (loss)/income after taxation								
(Loss)/profit for the year	-	-	-	-	(1.330)	(1.330)	20	(1.310)
Other comprehensive income	-	-	-	51	-	51	-	51
Total comprehensive (loss)/income	-	-	-	51	(1.330)	(1.279)	20	(1.259)
Transfers between reserves								
Excess depreciation on revaluation surplus	-	-	-	(4)	4	-	-	-
Total transfers between reserves	-	-	-	(4)	4	-	-	-
Transactions with owners of the Bank - contributions and distributions								
Decrease in capital reduction reserve fund against accumulated losses	-	-	(4.782)	-	4.782	-	-	-
Contribution to defence fund and General Health System on deemed dividend distribution of 2019 dividends	-	-	-	-	(175)	(175)	-	(175)
Total contributions and distributions	-	-	(4.782)	-	4.607	(175)	-	(175)
Balance 31 December 2021	**8.655**	**16.048**	**14.653**	**1.863**	**(2.536)**	**38.683**	**203**	**38.886**

The notes on pages 55 to 166 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to the parent company's owners							
2020	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2020	8.655	16.048	19.435	2.756	(3.170)	43.724	198	43.922
Correction in opening balance of subsidiaries reserves	-	-	-	-	(42)	(42)	(3)	(45)
Restated balance 1 January 2020	8.655	16.048	19.435	2.756	(3.212)	43.682	195	43.877
Total comprehensive loss after taxation								
Loss for the year	-	-	-	-	(3.343)	(3.343)	(11)	(3.354)
Other comprehensive loss	-	-	-	(254)	-	(254)	(2)	(256)
Total comprehensive loss	-	-	-	(254)	(3.343)	(3.597)	(13)	(3.610)
Transfers between reserves								
Depreciation difference on surplus value over cost	-	-	-	17	(17)	-	-	-
Tranfer from revaluation to revenue reserves excess value on equity investments disposed	-	-	-	(701)	701	-	-	-
Total transfers between reserves	-	-	-	(684)	684	-	-	-
Balance 31 December 2020	**8.655**	**16.048**	**19.435**	**1.818**	**(5.871)**	**40.085**	**182**	**40.267**

The notes on pages 55 to 166 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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

2020	Share capital €'000	Share premium €'000	Capital reduction reserve €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2020	8.655	16.048	19.435	1.592	(1.986)	43.744
Total comprehensive loss after taxation						
Loss for the year	-	-	-	-	(3.480)	(3.480)
Other comprehensive loss	-	-	-	(335)	-	(335)
Total comprehensive loss	-	-	-	(335)	(3.480)	(3.815)
Transfers between reserves						
Excess depreciation on revaluation surplus	-	-	-	17	(17)	-
Net gains on equity investments disposed	-	-	-	(701)	701	-
Total transfers between reserves	-	-	-	(684)	684	-
Balance 31 December 2020	**8.655**	**16.048**	**19.435**	**573**	**(4.782)**	**39.929**

The notes on pages 55 to 166 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

Share capital

There were no changes in the share capital of the Group and the Bank during the year ended 31 December 2021.

Share premium

Share premium is not available for distribution.

Capital reduction reserve fund

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

Capital reduction reserve fund is not available for distribution.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is not available for distribution.

The notes on pages 55 to 166 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 €'000	2020 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group loss for the year		(1.310)	(3.354)
Adjustments for:			
Net interest from debt securities		(96)	(466)
Premium/discount amortisation on debt securities		598	324
Interest on loan capital	6	11	-
Loss on disposal of premises and equipment	13	1	-
Depreciation of premises and equipment	13	521	632
Depreciation of intangible assets	13	356	408
Net foreign exchange gains		(144)	(524)
Impairment losses and provisions	13	1.120	6.184
Interest expense on lease liability	6	25	25
Gain from disposal of subsidiary	10	(60)	(53)
Negative goodwill on acquisition of associate	10	(283)	-
Share of loss from associate		62	-
Tax	14	679	660
		1.480	3.836
Change in:			
Obligatory balances with Central Bank		538	(12)
Placements with other banks		-	75
Loans and advances		11.575	(4.822)
Client deposits		(86.473)	27.983
Bank borrowings		(422)	(421)
Working capital and other items of the statement of financial position		22.203	3.474
Net cash (to)/from operating activities before tax		(51.099)	30.113
Taxes and special contributions paid		(852)	(633)
Net cash (to)/from operating activities		(51.951)	29.480
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	22	(150)	(307)
Acquisition of intangible assets	23	(291)	(281)
Acquisition of equity investments	18	(131)	-
Proceeds from disposal of equity investments		-	721
Acquisition of debt securities	19	(193.428)	(76.695)
Proceeds on disposal/redemption of debt securities	19	163.367	90.062
Acquisition of associate	21	(451)	-
Proceeds from disposal of subsidiaries		950	950
Net interest from debt securities		96	466
Net cash (used in)/from investing activities		(30.038)	14.916
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of Tier 2 subordinated bonds		6.250	-
Principal element of lease payments		(231)	(212)
Net cash from/(to) financing activities		6.019	(212)
Net (decrease)/increase in cash and cash equivalents		(75.970)	44.184
Effect of exchange rate fluctuations on cash and cash equivalents		112	170
Cash and cash equivalents at the beginning of the year		241.767	197.413
Cash and cash equivalents at the end of the year	36	165.909	241.767
Non-cash investing activities			
Reduction of capital reduction reserve fund utilised to write off accumulated losses		4.782	-
		4.782	-

The notes on pages 55 to 166 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 €'000	2020 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(1.406)	(3.480)
Adjustments for:			
Net interest from debt securities		(96)	(464)
Premium/discount amortisation on debt securities		598	324
Interest expense on loan capital	6	11	-
Loss on disposal of premises and equipment	13	1	-
Depreciation of premises and equipment	13	519	608
Depreciation of intangible assets	13	348	397
Net foreign exchange gains		(121)	(552)
Impairment losses and provisions to cover credit risk	13	1.275	5.525
Gain from disposal of subsidiary	10	(60)	(53)
Interest expense on lease liability	6	25	23
Tax	14	656	659
		1.750	2.987
Change in:			
Obligatory balances with Central Bank		538	(12)
Placements with other banks		-	75
Loans and advances		11.575	(4.822)
Client deposits		(86.473)	27.983
Bank borrowings		(422)	(421)
Working capital and other items of the statement of financial position		21.341	4.771
Net cash (to)/from operating activities before tax		(51.691)	30.561
Taxes and special contributions paid		(829)	(632)
Net cash (to)/from operating activities		(52.520)	29.929
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	22	(151)	(307)
Acquisition of intangible assets	23	(292)	(281)
Proceeds from disposal of equity investments		-	721
Acquisition of debt securities	19	(193.428)	(76.695)
Proceeds on disposal/redemption of debt securities	19	163.367	89.789
Proceeds from disposal of subsidiaries		950	950
Net interest from debt securities		96	464
Net cash (to)/from investing activities		(29.458)	14.641
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of Tier 2 subordinated bonds		6.250	-
Principal element of lease payments		(231)	(190)
Net cash from/(to) financing activities		6.019	(190)
Net (decrease)/increase in cash and cash equivalents		(75.959)	44.380
Effect of exchange rate fluctuations on cash and cash equivalents		112	170
Cash and cash equivalents at the beginning of the year		241.683	197.133
Cash and cash equivalents at the end of the year	36	165.836	241.683
Non-cash investing activities			
Reduction of capital reduction reserve fund utilised to write off accumulated losses		4.782	-
		4.782	-

The notes on pages 55 to 166 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. INCORPORATION AND PRINCIPAL ACTIVITIES

The Cyprus Development Bank Public Company Limited (the "Bank") was incorporated in the Republic of Cyprus in 1963. The Bank's business name is "cdbbank" and it is the parent company of the cdbbank Group.

The principal activities of the Bank, which remained unchanged from last year, are commercial banking operations.

The principal activities of the subsidiary company, Global Capital Securities and Financial Services Ltd, which remained the same as in the previous year, are portfolio management as well as the provision of financial advisory, investment banking and brokerage services.

The consolidated financial statements of the Group are available at the registered office of the Cyprus Development Bank Public Company Ltd and on the Bank's website www.cdb.com.cy.

2. BASIS OF PREPARATION

2.1 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements. The Directors have considered the conditions that existed during 2021 and the developments up to the date of approval of these financial statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

The Group has prepared a Financial and Capital Plan (the "Plan") taking into account the current economic environment, and more specifically the challenges and uncertainties created by the conflict between Russia and Ukraine as well as the evolution of COVID-19, and their impact on the clients and business of the Group. The medium-term Plan was considered in the going concern assessment in order to provide more visibility regarding the financial outcome of the business strategy. The Plan incorporates an appropriate capital plan which ensures compliance with the regulatory capital requirements throughout the period of assessment.

Although the Cypriot economy is expected to continue its growth in 2022 and throughout the forecasting period, uncertainties remain as to how the recent Russia-Ukraine conflict and COVID-19 pandemic will evolve and how it would affect the Group and the overall economy in 2022 and thereafter. In view of this, the Plan incorporates alternative scenarios and sensitivity analysis of the main assumptions of the Plan, to assess how possible changes in some of the underlying assumptions (evolution of NPEs, staging of loans, drop in real estate prices, lower new lending, different risk weights) used in the projections could impact the projected financial performance of the Group and its capital adequacy.

The Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity (as explained below), the current and projected financial performance of the Group and future course of action as per business plan, the risks emanating from the operating environment in which the Group operates and consider that the going concern principle is appropriate and that no material uncertainties exist which may cast significant doubt on the Group's and Bank's ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.1 Funding and liquidity

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

- The Group enjoys a strong liquidity position and is compliant with all regulatory liquidity ratios. The Liquidity Coverage Ratio (LCR) stood at 268% on 31 December 2021, well above the minimum requirement of 100%.
- The Group holds significant liquidity buffers that can be monetised in a period of stress.
- Based on the projections of management it is expected that the Group will be compliant with regulatory liquidity requirements for the period of the going concern assessment.

2.1.2 Capital

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

The Group's CET1 and overall capital adequacy ratio as at 31 December 2021 stood at 16,29% (31 December 2020: 14,81%) and 20,78% respectively (31 December 2020: 16,52%), being above the minimum regulatory requirement of 9,93% for CET1 and 15,70% for OCR. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimise capital usage and maintain capital ratios above minimum requirements. The following items have been considered in relation to the Group's capital adequacy throughout the period of the going concern:

- The Common Equity Tier 1 (CET1) ratio and Overall Capital Ratio (OCR) at 31 December 2021 and throughout the period of the going concern assessment are higher than SREP requirements (Note 37.5). The Capital Plan is based on maintaining a CET1 ratio of at least 13%, OCR of 15,70% and top up MREL of 1,3% over the entire period of the Plan.
- The Management Body and Management of the Group remain focused to implement the actions contemplated in the Plan of the Group which ensures viability of the Bank and the Group, compliance with capital requirements throughout the period of assessment, which include among others new capital injection in 2022 and the continued demonstrated support of the Bank's shareholders and their intention to inject capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.3 Non-performing exposures (NPEs)

Effective management of the non performing loan portfolio and monetization of REOs remains a top priority for the Group. During 2021, the Group reduced NPEs by 13% from €110,4 million as at 31 December 2020 to €95,7 million as at 31 December 2021. In its NPE Plan for 2022-2024 Management has formulated a recovery action plan for organic reduction of NPEs. The plan defines the resolution strategy for each NPE exposure with the primary objective to minimise resolution period. The implementation of these actions is carefully monitored, and recovery strategies and action plans are frequently reviewed based on developments and results in order to promptly introduce corrective actions. At the same time Management is contemplating non organic solutions for reduction of NPEs.

Detailed analysis of operating environment is presented in note 43 to the financial statements.

2.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the year ended 31 December 2021.

2.3 Basis of measurement

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

2.4 New and amended standards and Interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Amendments relating to Interest Rate Benchmark Reform(Phase 2 amendments)

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 were amended in August 2020, which are effective for periods beginning on or after 1 January 2021 with earlier adoption permitted. The Interest Rate Benchmark Reform - Phase 2 amendments deal with issues affecting financial reporting during the implementation of the benchmark rate reform. The objective of the amendments is to provide certain reliefs to companies when changes are made to the contractual cash flows or hedging relationships resulting from interest rate benchmark reform. The amendments also provide additional temporary exceptions from applying specific hedge accounting requirements of IAS 39 and IFRS 9 to hedge accounting relationships, which will generally allow hedging accounting relationships directly affected by the BMR reform to continue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION (continued)

2.4 New and amended standards and Interpretations (continued)

Changes in the basis for determining contractual cash flows

Changes in the basis for determining the contractual cash flows of a financial instrument that are required by the reform are accounted for by updating the effective interest rate, without the recognition of an immediate gain or loss. This practical expedient is only applied where the change to the contractual cash flows is necessary as a direct consequence of the reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

For additional changes made to the basis for determining the contractual cash flows of a financial instrument to those required by the reform, the practical expedient is applied first, after which the normal IFRS 9 requirements for modifications of financial instruments is applied.

IFRS 16: Leases COVID-19 Related rent concessions (amendment)

The IASB published 'amendments to IFRS 16 covering COVID-19-Related Rent Concessions'. These provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment was effective for annual reporting periods beginning on or after 1 June 2020. The amendments did not have a material impact on the results and financial position of the Group.

2.5 Standards and interpretations that are issued but not yet effective

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

IFRS 16: Leases COVID-19-Related Rent Concessions beyond 30 June 2021 (amendment)

The amendment increases the scope of COVID-19-related rent concessions (amendment to IFRS 16 issuedin May 2020), which provides lessees with an exemption from assessing whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. The amendment increases the eligibility period for the application of the exemption by 12 months from 30 June 2021 to 30 June 2022. The amendment is effective for annual reporting periods beginning on or after 1 April 2021, with early application permitted. The Group does not expect this amendment to have a material impact on its results and financial position.

IFRS 3: Business Combinations (amendments)

The IASB has published 'Reference to the Conceptual Framework (Amendments to IFRS 3)' with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing the accounting requirements for business combinations. The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The Group does not expect these amendments to have a material impact on its results and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION (continued)

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

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

IAS 16: Property, Plant and Equipment – Proceeds before Intended Use (amendments)

The amendments to the standard prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. They are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. An entity will apply the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The Group does not expect these amendments to have a material impact on its results and financial position.

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

The changes in Onerous Contracts - Cost of Fulfilling a Contract specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

Annual Improvements to IFRS Standards 2018–2020 Cycle

Annual Improvements to IFRS Standards 2018–2020 Cycle makes amendments to the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: the amendment permits a subsidiary that applies IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- IFRS 9 Financial Instruments: the amendment clarifies which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- IFRS 16 Leases: the amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION (continued)

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

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

The amendments to IFRS 1, IFRS 9 and IAS 41 are all effective for annual periods beginning on or after 1 January 2022, with earlier application permitted, whereas the amendment to IFRS 16 only regards an illustrative example. The Group does not expect these amendments to have a material impact on its results and financial position.

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

IAS 1 Presentation of Financial Statements: classification of Liabilities as Current or Non-current (amendments)

The IASB issued amendments to IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: (a) what is meant by a right to defer settlement, (b) that a right to defer must exist at the end of the reporting period and (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument. The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (amendments)

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have an impact on its results and financial position.

The abovementioned amendment has been endorsed by the EU in March 2022.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (amendments)

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

The abovementioned amendment has been endorsed by the EU in March 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION (continued)

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

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

IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments)

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

2.6 Fair value of financial assets and liabilities

The Group and the Bank apply the definition of fair value as set out in note 35. The Group and the Bank include disclosures in the financial statements, which are required under IFRS 13.

Level 1: financial investments valued using quoted prices in active markets.

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

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

2.7 Functional and presentation currency

The financial statements of the Group and the Bank are for the year ended 31 December 2021 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus.

2.8 Use of estimates and judgments

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

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

Significant accounting estimates and judgments are set out under note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in respect of items which are considered material for the results for the year and the reporting of the financial condition of the Group and the Bank, are stated below.

3.1 Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Bank, and of its subsidiary companies, which together are referred to as the “Group”.

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

3.2 Foreign currency

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

3.3 Turnover

The Group's and the Bank's turnover comprises interest income, fee and commission income, foreign exchange gains, dividends and profits on disposal of equity investments, profit from disposal of stock of property, fees from services rendered and other income.

3.4 Interest income and interest expense

The Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount of financial assets, unless the asset is credit-impaired.

When a financial asset becomes credit-impaired and is therefore classified as Stage 3, interest income is calculated by applying the EIR to the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance. If the financial asset cures and is no longer credit impaired, the Group reverts to calculating interest income on the gross carrying amount. In such cases, the Group reverses the unwinding of the discount on the expected credit losses (ECL) through the ”Provisions for impairment” line in the Income Statement.

For purchased or originated credit impaired (POCI) financial assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Fee and commission income

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

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

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

3.6 Dividend

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

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

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

3.8 Retirement benefits to staff

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% and 6% (2020: 9% and 6%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

3.9 Taxation

Provision for taxation is made in accordance with the tax legislation and tax rates applicable in Cyprus. Corporation tax in Cyprus is calculated at the rate of 12,5%. Provision for deferred taxation is also made for all temporary differences between the carrying values of assets and liabilities for financial reporting purposes and their tax base. Deferred taxation is calculated using the tax rates that were applicable at the end of the year. Any deferred tax assets arising from deductible temporary differences are recognised only to the extent that it is expected that taxable profits will be available in the future. Taxation is recognised in the income statement unless it relates to items recognised directly in equity or in the statement of comprehensive income. Tax assets and liabilities are offset if they relate to taxes imposed by the same tax authority provided it allows such settlements and provided the intention of the Group is to either settle the net amount or realise the asset and settle the obligation simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Special Levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2017", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31 December of the previous year for the quarter ending on 31 March, on 31 March of the same year for the quarter ending on 30 June, on 30 June of the same year for the quarter ending on 30 September and on 30 September of the same year for the quarter ending on 31 December. Based on an amendment to the Law effective as from 6 October 2017, an amount corresponding to the annual contribution of each credit institution to the Resolution Fund or to the Single Resolution Fund as the case may be, is deducted from the balance of special levy payable, up to the maximum amount of special levy for the same year.

3.11 Financial instruments

The Group applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

i. Classification

Business model assessment

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

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

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

ii. Measurement categories

Financial Assets measured at Amortised Cost (AC)

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

a) the financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model); and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii. Measurement categories (continued)

Financial Assets measured at Amortised Cost (AC) (continued)

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets that meet these criteria are measured initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortised cost, using the EIR method. Interest income, realised gains and losses on de-recognition and changes in expected credit losses from assets classified at AC, are included in the income statement.

The classification relates to cash and balances with Central Bank, placements with other banks, debt instruments and loans and advances to customers that pass the SPPI test.

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

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

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

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

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

Equity Instruments designated at FVOCI

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii. Measurement categories (continued)

Derivatives

Derivatives include mainly forward exchange rate contracts and currency swaps. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Financial liabilities

Financial liabilities include deposits by banks, customer deposits and other customer accounts. Financial liabilities are measured at amortised cost using the effective interest rate method.

iii. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iv. Modified financial assets

The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximise recovery.

In the event that the terms and conditions of a financial asset are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. A derecognition of a financial asset and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows. Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. A series of factors of both qualitative and quantitative nature are considered when making such judgements on modifications in the contractual cash flows, including change in the currency, change in counterparty, introduction of substantially modified terms, changes in the legal framework and other.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

Where the contractual terms of a financial instrument have been modified, and this does not result in derecognition, a modification gain or loss is recognised in the income statement representing the difference between the original cashflows and the modified cash flows, discounted at the effective interest rate. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. If the modification is credit related, such as forbearance or where the Group has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired (stage 3). A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired, as defined in Note 3.12, are no longer present. A modified financial asset will transfer out of Stage 2 when it no longer satisfies relative thresholds set to identify significant increases in credit risk, which are based on changes in its lifetime PD, days past due and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

3.12 Impairment of financial assets

The estimation of expected credit loss (ECL) requires significant judgement, estimates, and assumptions in considering information for current as well as future events and conditions.

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

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). IFRS 9 requires the classification of facilities/customers in three stages, according to the increases in credit risk level, considering certain criteria:

Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition. The Group recognises a credit loss allowance at an amount equal to 12 month expected credit losses.

Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit impaired. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit impaired. The Bank aligned Stage 3 classification with the NPE classification, consistent with the definition used for internal credit risk management purposes. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Upon initial recognition of instruments in scope of the impairment principles, the Group will record a loss allowance equal to 12-month ECL, being the ECL that results from default events that are possible within the next twelve months unless assets are considered as Purchased or Originated as Credit Impaired (POCI). When the criteria for stage 2 classification are no longer met, and the financial asset is not credit impaired, it will be reclassified to stage 1. In addition, subsequent transfers from stage 3 to stage 2 will take place when the financial asset ceases to be credit impaired as defined further below.

The loss allowance for POCI financial assets will always be measured at an amount equal to lifetime ECL. POCI financial assets include assets purchased at a deep discount and substantially modified assets arising from de-recognition of the original asset that are considered originated credit impaired. POCI financial assets remain a separate category until derecognition and are classified either as stage 3 or stage 2. For POCI financial assets, cumulative changes in lifetime ECLs since initial recognition are recognised in the loss allowance.

Interest revenue recognition

The Group will recognise interest income of financial assets at stage 1 or 2, by applying the effective interest rate (EIR) on their gross carrying amount, while for financial assets at stage 3 by applying EIR on their net carrying amount.

For purchased or originated credit impaired (POCI) financial assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

Significant increase in credit risk

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

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

Backstop

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

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

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

Credit-impaired exposures

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

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

When the exit criteria from the NPE status defined in the EBA standards are met and the exposure ceases to be an NPE, it is transferred out of stage 3. At such time if the conditions for stage 2 classification are met the exposure is transferred to stage 2 otherwise it is classified as stage 1.

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

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

Measurement of expected credit losses

As described above, if the credit risk of a financial instrument that is not classified as POCI has not increased significantly at the reporting date compared to its origination date, the loss allowance will be measured at an amount equal to 12-month ECLs. The 12-month ECLs represent a portion of lifetime losses that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Measurement of expected credit losses (continued)

In cases where a significant increase in credit risk on a financial instrument has been identified at the reporting date since initial recognition date, the measurement of ECLs will be conducted on a lifetime basis. Lifetime ECLs represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.

The measurement of ECLs will be an estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive (i.e. cash shortfalls) discounted using an approximation of the original effective interest rate (EIR) of the same instrument. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions is considered.

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

ECLs on financial guarantee contracts are estimated as the difference between the expected payments to reimburse the holder of the guarantee less any amounts that the Group expects to recover.

The Group calculates ECLs either on an individual basis or a collective basis depending on the nature of the underlying portfolio of exposures. ECLs on individually large credit-impaired loans, above pre-defined materiality thresholds set in accordance with the Group’s risk management policy are measured individually. This incorporates borrower and collateral specific information, collective historical experience of losses and forward-looking macroeconomic information. All customer exposures that are not individually assessed, are assessed on a collective basis. For this purpose, the exposures are grouped into segments with similar risk characteristics/ behaviour.

ECL Key inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF). Generally, the Group derives these parameters from internally developed statistical models and observed point-in-time and historical data. ECLs are calculated based on three-weighted scenarios.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

ECL Key inputs (continued)

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

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

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

Forward-looking inputs

The Group incorporates forward-looking information when measuring ECL. This involves the use of external forecasts to formulate both a 'baseline' view of key economic variables (e.g. GDP Growth, unemployment, house prices) as well as two additional economic scenarios representing a pessimistic and an optimistic macroeconomic outcome to estimate ECLs by linking economic variables to default and loss rates. For PDs this is achieved through regression equations while for LGDs forward-looking information is factored in through the evolution of property indices. The ECLs that result under each scenario are weighted to achieve an unbiased estimate of ECL. The weights applied are 50% (2020: 50%) for the baseline scenario, 30% (2020: 25%) for the pessimistic scenario and 20% (2020: 25%) for the optimistic scenario.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Offsetting

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

3.14 Write-offs

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

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

3.15 Subsidiary companies

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

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

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

Investment in the subsidiary company Global Capital Limited in the Bank's separate financial statements is stated at its assessed fair value. The Group designates investment in Global Capital Limited at FVOCI. Any gains or losses on the subsidiary, are recorded in OCI and are not subsequently reclassified to the income statement upon derecognition. Dividends received are recorded in the income statement.

Investments in subsidiaries that are set up with the purpose of managing the properties under debt for asset swaps (SPEs) are carried at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policy decisions.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

In the Consolidated Financial Statements, the Group's investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of the results of the associate is included in the consolidated income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not tested for impairment separately.

Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement and represents profit or loss before tax. The associated tax charge is disclosed in income tax.

The Group recognises its share of any changes in the equity of the associate through the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The Group applies equity accounting only up to the date an investment in associates meets the criteria for classification as held for sale. From then onwards, the investment in associates is measured at the lower of its carrying amount and fair value less costs to sell.

The financial statements of the associates are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

3.17 Cash and cash equivalents

Cash and cash equivalents consist of cash, non-obligatory balances with central banks, deposits with banks and other securities that are highly liquid and readily convertible into known amounts of cash or are repayable within three months from the date of their acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Premises and equipment

Freehold premises are used in the operations of the Group and are stated at valuation on the basis of open market value for existing use as assessed by independent professional valuers less accumulated depreciation. Revaluation surpluses or deficits are credited or debited to the revaluation reserve. Any deficit not covered by accumulated revaluation surpluses in the revaluation reserve for the specific asset, is written off to the income statement.

Equipment is measured at cost less accumulated depreciation. Material expenses which add future economic benefit are capitalised whereas other expenses are written off to the income statement.

Depreciation on premises is provided on the straight-line method in equal annual instalments over a period of 33 years. No depreciation is provided on land.

Depreciation on equipment is provided on the straight-line method in equal annual instalments over their estimated useful life, which ranges from five to ten years.

On disposal of premises and equipment, the difference between the net proceeds and the net book value is transferred to the income statement. Any related balance in the revaluation reserve is transferred to revenue reserve.

3.19 Leased assets

The Group as a lessee

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Leased assets (continued)

The Group as a lessee (continued)

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

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

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

The Group as a lessor

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

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

3.20 Intangible assets

Intangible assets include computer software.

Computer software is stated at cost less accumulated depreciation. Depreciation on computer software is provided on the straight-line method in equal annual instalments over their estimated useful life, which ranges from three to five years.

Maintenance expenses of computer software are written off to the income statement in the year in which they are incurred.

3.21 Stock of property

The Bank in its normal course of business acquires properties in exchange of debt, which are held either directly or by special purpose entities (SPEs) set up and controlled by the Bank for the sole purpose of managing these properties with an intention to be disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Stock of property (continued)

Stock of property are recognised in the statement of financial position as “Stock of property”, reflecting the substance of these transactions. The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of property are measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the income statement in the period in which the write down occurs. Profit or loss from disposal of stock of property, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

3.22 Client deposits

Client deposits are initially measured at the fair value of the consideration received, which equals the amount deposited by the client minus incremental direct transaction costs. Subsequently, client deposits are measured at their amortised cost using the effective interest rate method.

3.23 Loan capital

Loan capital issued by the Bank is initially recorded at fair value, which equals the amount received less transaction costs directly attributable to the issue, and subsequently is measured at its amortised cost using the effective interest rate method.

3.24 Share capital

The Bank's own shares are stated as equity.

3.25 Derivatives

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

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

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

3.26 Guarantees

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Guarantees (continued)

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

3.27 Impairment of non-financial assets

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

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

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

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

3.28 Discontinued operations

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.29 Assets held for sale

The Group classifies assets as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Bank is committed to a sale plan involving loss of control of a subsidiary, the total assets and liabilities of that subsidiary are classified as held for sale, regardless of whether non-controlling interest in its former subsidiary after the sale is retained. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and gains or losses from subsequent measurement are recognised in the income statement. A gain is only recognised to the extent that it is not in excess of the cumulative impairment loss that has been recognised.

The Group currently does not classify any asset as held-for-sale.

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

Provisions for pending litigation, claims, regulatory and other matters against the Group are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

3.31 Comparatives

Comparatives presented in the financial statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent obligations and liabilities at balance sheet date and the reported amounts of income and expenses during the year of reporting. Despite the fact that these assumptions are based on the best possible knowledge of the Group's Management and the Board of Directors regarding current conditions and activities, actual results may eventually differ from those estimates.

Accounting estimates and judgments are reviewed and evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The assessment of these factors determines the basis under which judgement is being applied in connection with accounting principles affecting the value of assets and liabilities which are not immediately apparent from other sources.

4.1 Classification of financial assets

The Group exercises judgement upon determining the classification of its financial assets to customers which relate to business models and future cash flows.

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

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

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

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

The Bank is assessing the significance of the amount of sales by comparing the portion sold with the overall size of the portfolio subject to the business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rates could significantly affect future cash flows.

More details on investment in debt securities and equity are presented in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses

The calculation of ECLs requires management to apply significant judgement and make estimates and assumptions. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECLs to be recognised. The Group's calculations are outputs of models, of underlying assumption on the choice of variable inputs and their interdependencies. Elements of ECL models that are considered accounting judgement and estimates include:

Assessment of significant increase in credit risk (SICR)

The Group assesses whether significant increase in credit risk has occurred since initial recognition using staging criteria and qualitative information in certain cases. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated by the Group's Management and endorsed by the Group Provisions Committee.

Determination of probability of default (PD)

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

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

Scenarios and macroeconomic factors

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

The outlook for the global economy has improved markedly in 2021 despite COVID-19 pandemic, since the second wave, thought more aggressive in terms of the surge of infections has not led to significant restrictions (i.e. lockdown measures) in the economic activity due to the vaccinations. Worst outcomes were avoided by aggressive and excessively expansive monetary and fiscal policies. As a result, the Group updated its forward-looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments in the national and the EU level.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

The Group uses three different economic scenarios. For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios: base at 50% weight (2020: 50% weight), pessimistic at 30% weight (2020: 25% weight) and optimistic 20% weight (2020: 25% weight). For collectively assessed customers the calculation is also the weighted average of three scenarios: base, adverse and optimistic.

Under the pessimistic scenario, applied haircuts on real estate collaterals are increased by 2% and the timing of recovery of collaterals is increased by 0,5 year. Under the optimistic scenario applied haircuts are decreased by 2% and the timing of recovery of collaterals is decreased by 0,5 year.

Under all scenarios, selling costs are assumed to be 5% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collaterals values.

The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available property price indices by the CBC.

In addition, a forward-looking indexation is applied in the collateral prices for estimating the future open market value at the time of liquidation and future net liquidation value is capped at the market value indexed as at the reference date.

For all real estate collaterals, the following haircuts were applied to the indexed open market values as at 31 December 2021 and 31 December 2020:

	Haircuts			
	31 December 2021		31 December 2020	
Property Type	Urban locations	Rural locations	Urban locations	Rural locations
Commercial Building	10%	20%	8%	20%
Hotel	- %	- %	- %	- %
Residential Building	6%	11%	6%	10%
Semi-completed Real Estate (residential & commercial)	15%	25%	15%	25%
Special Purpose Building	7%	10%	5%	8%
Agricultural Land	25%	25%	25%	25%
Commercial Land	12%	20%	12%	20%
Residential Land	11%	18%	10%	17%
Other Countries	50%	50%	50%	50%

The above average haircuts are applied by reference to the location of each collateral.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

The table below indicates the most significant macroeconomic variables as well as the scenario weights used by the Group as at 31 December 2021 and 31 December 2020.

Cyprus Economy – Macroeconomic Parameters 31 December 2021

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

Cyprus Economy – Macroeconomic Parameters 31 December 2020

Scenarios			2020	2021	2022	2023	2024
Optimistic	Real GDP change	%	-5,88	6,93	4,47	5,01	2,48
	Unemployment rate	%	7,80	6,44	5,74	5,50	5,33
	Consumer Price Index	%	-0,12	3,17	0,77	1,13	1,64
	House Price index change	%	-2,40	-1,81	1,99	3,47	5,79
Baseline	Real GDP change	%	-6,77	3,52	5,01	5,16	2,48
	Unemployment rate	%	8,10	7,26	6,07	5,51	5,33
	Consumer Price Index	%	-0,26	2,04	0,22	0,86	1,47
	House Price index change	%	-2,66	-3,46	0,38	3,53	5,82
Pessimistic	Real GDP change	%	-8,40	-1,56	4,64	6,02	2,91
	Unemployment rate	%	8,50	9,05	8,04	6,75	6,61
	Consumer Price Index	%	-0,47	0,45	-1,26	0,16	0,67
	House Price index change	%	-3,46	-9,88	-6,54	0,83	7,19

Assessment of loss given default

A factor for the estimation of LGD is the timing of net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property prices and are capped accordingly in case of any future projected increase, whereas any future projected decrease is taken into consideration.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers ranges between 3-5 years under the baseline scenario as in the previous year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Assessment of loss given default (continued)

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

Sensitivity analysis

For the purposes of providing an indication of the change in accumulated impairment losses on loans and advances, the Bank has performed sensitivity analysis on scenario weights used in the loan provisioning methodology. The impact on the provisions for impairment of loans and advances is presented below:

The below sensitivity scenarios mainly affect loss given default (LGD) as they include the effect of management overlays performed during the ECL exercise.

Change in scenario weights	Increase/(Decrease) of ECLs for loans and advances
	€'000
Baseline 50%, Optimistic 25%, Pessimistic 25%	(415)
Baseline 50%, Optimistic 30%, Pessimistic 20%	(829)
Baseline 100%, Optimistic 0%, Pessimistic 0%	(1.434)
Baseline 0%, Optimistic 100%, Pessimistic 0%	(3.541)
Baseline 0%, Optimistic 0%, Pessimistic 100%	4.750

Overlays

The emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions and energy price volatility increase uncertainty around inflation and related macroeconomic factors. Due to the economic uncertainty, and to more prudently capture the downside risks that are associated with worse than foreseen prospects regarding the external environment as well as ongoing disruptions and / or greater than expected impacts relating to supply chain problems and worse than expected epidemiological developments that may affect economic activity, the Bank has decided to use subjective input and post-core model adjustments (overlays).

The use of two different overlays was decided. The impact of these overlays was estimated at €810K.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Calculation of expected credit losses (continued)

Overlays (continued)

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

For the calculation of expected credit loss on the value of loans and advances to customers, judgment is involved regarding the amount and timing of estimated future cash flows. The estimated future cash flows include any expected cash flows form the borrower's operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable. The timing of these cash flows is estimated on a case-by-case basis.

4.3 Fair value of investment in debt securities and equity

The best evidence of fair value is a quoted price in an actively traded market. The fair value of investments in debt securities and equity that are not traded in an active market is determined by using valuation techniques. The Bank and the Group uses valuation techniques that use observable market data, to the extend possible, where the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

More details on investment in debt securities and equity are presented in Notes 18, 19 and 35.

4.4 Income taxes

Significant estimates are required in determining the provision for income tax. For specific transactions and calculations, the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes may become due. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

4.5 Stock of property – estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined through valuation techniques, requiring significant judgement, which take into account all available reference points such as, expert valuation reports, current market conditions, the holding period of the asset applying an appropriate illiquidity discount where considered necessary and any other relevant parameters. Selling expenses are deducted from the realisable value. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainty due to the relatively low level of market activity.

More details on stock of property are presented in Note 24.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.6 Exercise of significant influence or control

The Group determines whether it exercises significant influence or control on companies in which it has shareholdings. In performing this assessment, it considers its representation in the Board of Directors, the participation in policy-making processes including participation in decisions about dividends and other distributions, the execution of material transactions between the investor and the investee, the interchange of managerial personnel or the provision of essential technical information.

More details on exercise of significant influence or control are presented in Notes 20 and 21.

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

The accounting policy for provisions for pending litigation, claims, regulatory and other matters is described in Note 3.30. Judgment is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigation, claims, regulatory and other matters usually require a high degree of judgement than other types of provisions. For a detailed description of the nature of uncertainties and assumptions and the effect of the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 42.

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Loans and advances at amortised cost	9.176	9.997	9.491	10.898
Balances with banks at amortised cost	84	164	80	162
Debt securities	169	466	169	464
Client deposits	469	488	469	488
	9.898	11.115	10.209	12.012

Interest from loans and advances includes interest on net carrying amount of impaired loans and advances amounting to €2.403 thousand for the Group and €2.718 thousand for the Bank (31 December 2020: €3.369 thousand for the Group and €4.057 thousand for the Bank).

When a financial asset becomes credit impaired then interest is recognised on the net carrying amount of the financial asset. The policy applicable for interest recognition is disclosed in note 3 to the financial statements.

The Bank's interest from loans and advances includes interest from loans to subsidiaries amounting to €315 thousand (31 December 2020: €901 thousand).

Previous year's negative interest of €488 thousand on client deposits which was classified under interest expense has been reclassified as interest income, to conform with changes in the presentation of the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Bank borrowings	9	20	9	20
Client deposits	248	597	248	597
Balances with banks	741	645	735	641
Loan capital	11	-	11	-
Debt securities	73	-	73	-
Interest expense on lease liability	25	25	25	23
	1.107	1.287	1.101	1.281

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

Previous year's negative interest of €488 thousand on client deposits which was classified under interest expense has been reclassified as interest income, to conform with changes in the presentation of the current year.

7. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Credit related fees and commissions	656	825	656	825
Fund transfer commissions	1.061	1.225	1.061	1.225
Other banking and brokerage fees and commissions	1.350	1.888	1.052	1.554
	3.067	3.938	2.769	3.604

8. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	236	282	236	282
Credit related fees and commissions	57	41	57	41
Brokerage fees and commissions	24	61	-	-
Management and performance fees	91	-	-	-
	408	384	293	323

9. NET FOREIGN EXCHANGE GAINS

Net foreign exchange gains comprise gains less losses related to the conversion of monetary assets and liabilities in foreign currency at the reporting date and realised exchange gains/(losses) from transactions in foreign currency settled during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

10. OTHER INCOME

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Profit from disposal of subsidiary (note 20)	60	53	60	53
Profit/(loss) from disposal of stock of property (note 24)	131	1.767	131	(23)
Profit from disposal of debt securities at FVOCI	-	44	-	-
Negative goodwill (note 21)	283	-	-	-
Other income	222	89	24	24
	696	1.953	215	54

11. STAFF COSTS

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Salaries	6.169	5.943	5.932	5.709
Employer's contributions	1.007	952	973	919
Other staff benefits	1	17	1	17
Cost of retirement benefits	518	475	505	462
Termination benefits	-	400	-	400
	7.695	7.787	7.411	7.507

The number of persons employed by the Group as at 31 December 2021 was 148 (31 December 2020: 142) and by the Bank 142 (31 December 2020: 136).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2020: 9%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

12. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Consultancy and legal fees	679	665	656	623
Regulatory fees	258	338	240	323
Repairs and maintenance	871	829	859	822
Marketing, subscriptions and donations	298	343	285	320
Utilities	282	265	272	255
Other operating expenses	987	1.102	1.012	1.059
	3.375	3.542	3.324	3.402

13. LOSS BEFORE TAX

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

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees (note 41)	194	250	194	250
Expenses	6	7	6	7
Independent auditors' remuneration:				
Audit of annual accounts	155	100	125	70
Audit fees previous years	-	7	-	7
Other non-audit services	12	55	12	55
Other assurance services	12	13	12	13
Loss on disposal/write off of equipment	1	-	1	-
Depreciation on:				
Premises and equipment (note 22)	521	632	519	608
Computer software (note 23)	356	408	348	397
Provisions for impairment:				
Loans and advances	1.191	5.346	1.191	5.346
Receivables and other assets	(40)	(15)	(40)	(15)
Financial guarantees and commitments (note 29)	(605)	198	(605)	198
Debt securities at FVOCI (note 19)	(1)	(9)	(1)	(9)
Debt securities at amortised cost (note 19)	15	67	15	67
Balances with Group companies	-	-	619	(61)
Cash and cash equivalents	9	(1)	9	(1)
Impairment losses on stock of property (note 24)	551	598	87	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. TAXATION

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Corporation tax	18	-	-	-
Deferred tax (note 28)	4	27	4	27
Special contribution to the defence fund	5	1	-	-
Special levy on client deposits	652	632	652	632
	679	660	656	659

The Bank is subject to income tax on taxable profits at the rate of 12,5%. As from 2012 a limitation of five years was introduced in the carried forward losses, under which losses are allowed to be carried forward for offsetting future taxable income, for a period of five years from the year to which the profits relate. Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

The special levy on deposits 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 client deposits for 2021 amounted to €652 thousand (2020: €632 thousand). Following an amendment of the "Special Levy on Credit Institutions 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 2021 special tax on client deposits is net of €61 thousand (2020: €101 thousand) relating to the contribution of the Bank to the Single Resolution Fund.

Due to tax losses sustained in the year, no tax liability arises on the Bank. Under current legislation, tax loss may be carried forward and be set off against taxable income of the five succeeding years. As at 31 December 2021, the balance of tax losses which is available for offset against future taxable profits amounts to €8.021 thousand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. TAXATION (continued)

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

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Accounting loss before tax	(631)	(2.694)	(750)	(2.821)
Corporation tax on the loss for the year at the rates applicable in Cyprus	(79)	(337)	(94)	(353)
Tax effect of:				
Expenses not deductible for tax purposes	131	382	128	364
Allowances and income not subject to tax	(175)	(165)	(175)	(151)
Deferred tax asset on tax losses not recognised	141	120	141	140
Corporation tax	18	-	-	-
Deferred tax	4	27	4	27
Special contribution to the defence fund	5	1	-	-
Special levy on client deposits	652	632	652	632
Charge for the year	679	660	656	659

15. BASIC AND DILUTED LOSS PER SHARE

	THE GROUP		THE BANK	
	2021	2020	2021	2020
Basic and diluted loss per share				
Loss attributable to the owners of the parent company (€'000)	(1.330)	(3.343)	(1.406)	(3.480)
Weighted average number of shares in issue during the year ('000)	43.276	43.276	43.276	43.276
Basic and fully diluted loss per share (cent)	(3,07)	(7,72)	(3,25)	(8,04)

	THE GROUP AND THE BANK	
Weighted average number of ordinary shares in issue	2021	2020
Weighted average number of shares in issue during the year ('000)	43.276	43.276

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

16. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Cash	997	807	997	807
Balances with central banks	165.988	186.121	165.988	186.121
	166.985	186.928	166.985	186.928
Balances with other banks	3.266	59.719	3.193	59.635
Stage 1 – 12 month expected credit losses	-	-	-	-
	3.266	59.719	3.193	59.635

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.342 thousand (2020: €4.880 thousand) for the Group and the Bank.

For cash and cash equivalents as per statement of cash flows, refer to note 36.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in note 37 to the financial statements.

17. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2021	2020
	€'000	€'000
Loans and advances	263.272	289.160
Impairment losses individually assessed	(44.733)	(58.020)
Impairment losses collectively assessed	(4.069)	(3.905)
	214.470	227.235

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 37 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. LOANS AND ADVANCES (continued)

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

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

THE GROUP AND THE BANK	2020				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	126.877	32.633	102.013	19.290	280.813
Transfer from Stage 1 to Stage 2	(24.480)	24.480	-	-	-
Transfer from Stage 1 to Stage 3	(299)	-	299	-	-
Transfer from Stage 2 to Stage 3	-	(201)	201	-	-
Transfer from Stage 3 to Stage 2	-	16	(16)	-	-
Transfer from Stage 2 to Stage 1	2.717	(2.717)	-	-	-
Transfer from Stage 3 to Stage 1	42	-	(42)	-	-
Net movement during the period	2.065	4.256	1.673	353	8.347
31 December	106.922	58.467	104.128	19.643	289.160

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

18. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	6.065	6.085	6.065	6.085
Acquisitions	131	-	-	-
Disposals	-	(20)	-	(20)
Balance 31 December	6.196	6.065	6.065	6.065
Permanent diminution				
Balance 1 January	(6.063)	(6.063)	(6.063)	(6.063)
Balance 31 December	(6.063)	(6.063)	(6.063)	(6.063)
Revaluation at fair value				
Balance 1 January	(2)	828	(2)	828
Disposals	-	(701)	-	(701)
Decrease in fair value	-	(129)	-	(129)
Balance 31 December	(2)	(2)	(2)	(2)
Balance 31 December at fair value	131	-	-	-

Investments in equities as at 31 December 2021 of €131 thousand relate to an investment in a shipping fund. The valuation of this investment is performed on a semi-annual basis and the Group uses the net assets value (NAV) of the Fund.

All the above investments are classified as investments at fair value through other comprehensive income and are categorised under level 3. The fair values are disclosed in note 35 to the financial statements.

Additional analysis and information regarding market risk are set out in note 37 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. INVESTMENTS IN DEBT SECURITIES

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Securities at amortised cost				
Sovereigns	106.250	76.704	106.250	76.704
	106.250	76.704	106.250	76.704
Securities at fair value through other comprehensive income				
Sovereigns	5.429	5.573	5.429	5.573
	5.429	5.573	5.429	5.573
	111.679	82.277	111.679	82.277

Debt securities at FVOCI and at amortised cost are listed.

The movement of debt securities was as follows:

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Amortised cost				
Balance at 1 January	76.771	-	76.771	-
Acquisitions	193.428	76.695	193.428	76.695
Maturities	(163.367)	-	(163.367)	-
Amortisation of discounts/premiums and interest	(500)	-	(500)	-
Foreign exchange difference	-	76	-	76
	106.332	76.771	106.332	76.771
Stage 1 - 12 month expected credit losses	(82)	(67)	(82)	(67)
Balance 31 December	106.250	76.704	106.250	76.704

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Fair Value through OCI				
Balance at 1 January	5.585	95.872	5.585	95.622
Disposals	-	(273)	-	-
Maturities	-	(89.789)	-	(89.789)
Amortisation of discounts/premiums and interest	(98)	(273)	(98)	(271)
Foreign exchange difference	-	99	-	98
Mark to market valuation	(47)	(51)	(47)	(75)
	5.440	5.585	5.440	5.585
Stage 1 - 12 month expected credit losses	(11)	(12)	(11)	(12)
Balance 31 December	5.429	5.573	5.429	5.573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. INVESTMENTS IN DEBT SECURITIES (continued)

Movement of Expected credit losses

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Balance 1 January	79	21	79	21
Stage 1 – 12 month expected credit losses FVOCI (note 13)	(1)	(9)	(1)	(9)
Stage 1 – 12 month expected credit losses amortised cost (note 13)	15	67	15	67
Balance 31 December	93	79	93	79

Additional analysis and information regarding market risk are set out in note 37 to the financial statements.

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES

THE BANK

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

	Shareholding		Activities
	2021	2020	
In Cyprus:	%	%	
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services

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

	Shareholding		Activities
	2021	2020	
	%	%	
Global Capital Securities and Financial Services Limited	99,99	99,99	Portfolio management, provision of financial advisory services and brokerage services
Global Capital Finance Limited	100,00	100,00	Inactive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

At 31 December 2021 the Bank had 100% shareholding in the Special Purpose Entity companies (SPEs) listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts.

Cyprus registered companies

- Pekito Holdings Limited
- Tsemberio Holding Limited
- Glumar Limited
- Welbon Limited
- Metrore Properties Limited
- Jekelani Holding Limited
- Primesky Limited
- Starwiz Limited
- Wailmer Holdings Limited

Russian registered company

- LLC Cyproperties

LLC Cyproperties is a company registered in the Russian Federation holding of assets (loans and properties) assigned from JSC cdbbank. On September 01, 2021, a decision was taken to start the procedure of the voluntary liquidation of the Company due to the termination of its economic activities. An application for the voluntary winding-up of the Company was submitted to the Russian Unified State Register of Legal Entities and a certificate of the entry on the legal liquidation of the Company was issued on 11 February 2022 by the Russian Tax Authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Global Capital Limited

The Bank's exposure in Global Capital Limited and its subsidiaries is held at fair value through other comprehensive income (FVTOCI) as shown below:

	2021 €'000	2020 €'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(1.164)	(1.278)
Fair value of investment 31 December	**1.117**	**1.003**
Amounts due to subsidiary company	(488)	(729)
Amounts due by subsidiary company		
Gross amount due by subsidiary company	465	101
Provision for impairment - collective	(3)	-
	462	101
Total exposure in Global Capital Limited	**1.091**	**375**
Income for the year	28	24
Expenses for the year	167	73

Movement in fair value of Global Capital Limited

	2021 €'000	2020 €'000
Fair value 1 January	1.003	1.095
Movement of fair value	114	(92)
Fair value of investment 31 December	**1.117**	**1.003**

The assumptions and methodology underlying the calculation of fair value of Global Capital Limited are disclosed in note 35 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

20. INVESTMENTS AND EXPOSURES IN SUBSIDIARY COMPANIES (continued)

THE BANK

Shareholding interest in Special Purpose Entities (SPEs)

The Bank's exposure in Special Purpose Entities is shown below:

	2021	2020
	€'000	€'000
Cost of investments 1 January	9	7
Additions - new subsidiaries set up	2	3
Disposals	(1)	(1)
Cost of investments 31 December	**10**	**9**
Amounts due to SPEs	(160)	(1.687)
Amounts due by SPEs		
Gross amount due by SPEs	10.201	18.289
Provision for impairment	(1.779)	(3.204)
	8.422	15.085
Total exposure in SPEs	**8.272**	**13.407**
Income for the year	323	902
Expenses for the year	1	-
Total exposure in subsidiary companies	**9.363**	**13.782**

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

During the years 2021 and 2020, the Bank set up one and two new subsidiaries, respectively.

During the year ended 31 December 2021, the Bank disposed of its 100% shareholding in Figalas Limited and recorded a profit on disposal of €60 thousand in the income statement (note 10).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

21. INVESTMENTS IN ASSOCIATES

THE GROUP

In October 2021 the Group through its subsidiary company Global Capital Limited, acquired 83.999 thousand shares in CLR Investment Fund Public Ltd, an investment company listed in the Cyprus Stock Exchange (particiapation of 29,15%). The details of the investment are as follows:

Name	Country of incorporation	Effective shareholding		Activities
		2021	2020	
		%	%	
CLR Investment Fund Public Limited	Cyprus	24,674	-	Investments in securities listed in the Cyprus Stock Exchange, in strategic investments and in business participations in private companies

The Group's interest in CLR Investment Fund Public Ltd is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in CLR Investment Fund Public Ltd:

Summarised statement of financial position of CLR Investment Fund Public Ltd

	2021 €'000	2020 €'000
Current assets - adjusted	3.128	-
Current liabilities	(823)	-
Equity	**2.305**	**-**
Group's share in equity - carrying amount of investment	**672**	**-**
Group's share of loss for the year	**(62)**	**-**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

22. PREMISES AND EQUIPMENT

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

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2020				
Cost or valuation				
Balance 1 January	6.305	3.055	1.060	10.420
Additions	24	283	-	307
Revaluation	24	-	-	24
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU assets	-	-	61	61
Balance 31 December	5.997	3.338	1.121	10.456
Depreciation				
Balance 1 January	696	2.532	213	3.441
Charge for the year	143	254	235	632
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU assets	-	-	(190)	(190)
Balance 31 December	483	2.786	258	3.527
Net book value 31 December	5.514	552	863	6.929
Historic net book value of own premises stated at valuation 31 December	3.404	-	-	3.404

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

22. PREMISES AND EQUIPMENT (continued)

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

THE BANK	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2020				
Cost or valuation				
Balance 1 January	6.207	2.813	1.060	10.080
Additions	24	283	-	307
Revaluation	24	-	-	24
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU assets	-	-	(29)	(29)
Balance 31 December	5.899	3.096	1.031	10.026
Depreciation				
Balance 1 January	598	2.295	213	3.106
Charge for the year	143	254	211	608
Reversal of depreciation on revaluation	(356)	-	-	(356)
Remeasurement of RoU assets	-	-	(211)	(211)
Balance 31 December	385	2.549	213	3.147
Net book value 31 December	5.514	547	818	6.879
Historic net book value of own premises stated at valuation 31 December	3.404	-	-	3.404

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in Premises and equipment, with a corresponding liability to the lessor recognised in Other liabilities, in accordance with the Group's leased assets accounting policy in note 3.19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

22. PREMISES AND EQUIPMENT (continued)

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

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

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

The net book value of freehold premises, on a cost less accumulated depreciation basis, as at 31 December 2021 would have amounted to €3.287 thousand (2020: €3.375 thousand). The net book value of leasehold premises as at 31 December 2021 amounts to €24 thousand (2020: €29 thousand).

NOTES TO THE FINANCIAL STATEMENTS

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23. INTANGIBLE ASSETS

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

	THE GROUP	THE BANK
	Computer software	Computer software
2020	€'000	€'000
Cost		
Balance 1 January	5.254	5.080
Additions	281	281
Balance 31 December	5.535	5.361
Depreciation and impairment losses		
Balance 1 January	4.256	4.102
Charge for the year	408	397
Balance 31 December	4.664	4.499
Net book value 31 December	871	862

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

24. STOCK OF PROPERTY

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Stock of property	9.702	10.225	1.331	529
	9.702	10.225	1.331	529

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

The carrying value of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2021 an impairment loss of €551 thousand (2020: €598 thousand) was recognised in the consolidated income statement and €87 thousand (2020: €nil) in the income statement of the Bank.

The stock of property held on 31 December 2021 consisted mainly of industrial buildings of €3m, commercial buildings of €3m, commercial land plots of €3m and residential land and buildings of €0,3m.

For year ending 31 December 2021, stock of property has been reclassified from "receivables and other assets" to a separate line with name "stock of property" in the Financial Position of the Group and the Bank. Comparatives for 2020 have been restated accordingly to present information on a consistent basis.

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

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Net book value 1 January	10.225	19.362	529	619
Additions	1.631	8.130	1.615	11
Disposals	(1.603)	(16.669)	(726)	(101)
Impairment	(551)	(598)	(87)	-
Balance 31 December	9.702	10.225	1.331	529

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

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Net proceeds	1.734	18.436	857	78
Carrying value of stock of property disposed of	(1.603)	(16.669)	(726)	(101)
Net gains on disposal of stock of property	131	1.767	131	(23)

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25. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Sundry debtors and other assets	1.595	6.474	721	520
	1.595	6.474	721	520

For year ending 31 December 2021, stock of property has been reclassified from "receivables and other assets" to a separate line with name "stock of property" in the Financial Position of the Group and the Bank. Comparatives for 2020 have been restated accordingly to present information on a consistent basis.

26. BANK BORROWINGS

THE GROUP AND THE BANK

	2021	2020
	€'000	€'000
Borrowings	2.749	3.171
	2.749	3.171

In 2016 a Finance Contract was signed between the Bank and the European Investment Bank (EIB) for an amount of up to €15 million. The purpose of the loan was to provide support to the Cypriot economy through the financing of eligible investment projects located in Cyprus undertaken by small and medium sized companies. The interest and repayment period are defined for each tranche of the loan. Until the end of 2021 two tranches were disbursed for a total amount of €4.210 thousand carrying a floating interest based on the six-month Euribor and a margin of 0,708%. Both tranches are repayable within ten years, from the date of disbursement, in twenty equal semi-annual instalments as follows:

		Balance		
	Disbursed	2021	2020	Maturity
	€'000	€'000	€'000	
Tranche 1	2.000	1.201	1.401	8 November 2027
Tranche 2	2.210	1.548	1.770	24 October 2028
	4.210	2.749	3.171	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

27. CLIENT DEPOSITS

THE GROUP AND THE BANK

	2021	2020
	€'000	€'000
Demand deposits	253.456	334.143
Fixed-term or notice deposits	184.352	190.138
	437.808	524.281

28. DEFERRED TAXATION

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Balance 1 January	440	350	440	350
Deferred tax on revaluation of premises	(98)	63	(98)	63
Debited to the income statement	4	27	4	27
Balance 31 December	346	440	346	440

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Surplus on revaluation of premises (net of accumulated depreciation)	351	449	351	449
Accumulated temporary differences between depreciation and capital allowances	(5)	(9)	(5)	(9)
	346	440	346	440

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

	2021		2020	
	€'000	Expiry date	€'000	Expiry date
Balance 31 December	8.021	2022-2026	7.324	2021-2025

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

29. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	2.795	2.542	2.407	916
Items in the course of settlement	21.024	3.080	21.024	3.080
Deferred income	203	271	203	271
Lease liability (note 30)	680	889	680	842
Provision for financial guarantees and commitments	112	717	112	717
	24.814	7.499	24.426	5.826

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

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

Provisions for financial guarantees and commitments

The movement for the year in provisions for financial guarantees and commitments is as follows:

THE GROUP AND THE BANK	2021	2020
	€'000	€'000
Balance 1 January	717	519
Net (decrease)/increase in provision (note 13)	(605)	198
Balance 31 December	112	717

The expected timing of outflows of provisions is uncertain due to their nature.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

30. LEASE LIABILITIES

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

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

Movement in lease liability

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Balance 1 January	889	855	842	855
Remeasurement of lease liability	(3)	252	44	183
Cash-outflow payments	(231)	(243)	(231)	(219)
Interest expense	25	25	25	23
	680	889	680	842

The right-of-use asset balances and depreciation charges are disclosed in Note 22.

The maturity profile for lease liabilities associated with leased premises is as follows:

THE GROUP AND THE BANK
2021

	One year or less	Between one and two years	Between two and five years	More than five years	Total
	€'000	€'000	€'000	€'000	€'000
Other liabilities - lease liabilities	187	176	358	-	721

THE GROUP
2020

	One year or less	Between one and two years	Between two and five years	More than five years	Total
	€'000	€'000	€'000	€'000	€'000
Other liabilities - lease liabilities	242	247	452	-	941

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

30. LEASE LIABILITIES (continued)

THE BANK

2020	One year or less €'000	Between one and two years €'000	Between two and five years €'000	More than five years €'000	Total €'000
Other liabilities - lease liabilities	218	223	406	-	847

The fair values of lease obligations approximate to their carrying amounts as presented above.

€'000

31. LOAN CAPITAL

THE GROUP

		2021		2020	
	Contractual interest rate	€'000 Nominal value	€'000 Carrying value	€'000 Nominal value	€'000 Carrying value
Perpetual Unsecured Subordinated Note	13,75%	5.000	5.000	5.000	5.000
Subordinated Tier 2 bonds	7,125%	6.250	6.261	6.250	-
		11.250	11.261	11.250	5.000

Perpetual Unsecured Subordinated Note

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

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

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

Any interest payment cancelled, as indicated above, shall not accumulate or be payable at any time thereafter. For the year ending 31 December 2021 the conditions for payment of interest were not met, and consequently no interest was paid or accrued on the Note.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

31. LOAN CAPITAL (continued)

Perpetual Unsecured Subordinated Note (continued)

The Issuer has the option to redeem the Note in full but not in part on the fifth anniversary from the issue date of 3rd August 2022 or any due date for interest payment thereafter. The right to exercise such redemption option is subject to prior permission by the Competent Authority upon demonstrating that the Note has been replaced by own funds instruments of equal or higher quality or that following such redemption own funds would exceed minimum capital requirements as determined by the Competent Authority.

Upon the occurrence of a trigger event, being defined as a Core Equity Tier 1 ratio (CET1) below 5,125%, the principal amount of the Note shall be written down proportionately with other such loss absorbing instruments to the extent necessary to restore CET1 to 5,125%.

The Perpetual Unsecured Subordinated Note qualifies for classification as Additional Tier 1 Capital.

Subordinated Tier 2 bonds

In December 2021, the Bank issued €6,25 million unsecured and subordinated Bonds of 10-year duration. The Bonds carry a fixed interest rate of 7,125% payable every six months, on 23 June and 23 December each year. The Bonds mature on 23 December 2031. The Bank has the option to redeem the bonds in whole or in part before their contractual maturity, provided that 5 years have lapsed from the date of issuance, and subject to regulatory consents. The Bank also has the right but not the obligation to exercise an option for the early call, redemption, repayment, or purchase of the Bonds during the first five years following their date of their issuance, under specific circumstances as these are stated in Article 78(4) of the CRR and subject to regulatory consents. The bonds rank as Tier II capital for the purposed of the calculation of the capital adequacy ratio of the Bank and the Group.

32. SHARE CAPITAL

THE BANK

	2021		2020	
	No. of shares	Share Capital €'000	No. of shares	Share Capital €'000
Authorised:				
Ordinary shares of €0,20 each	704.849.584	140.970	704.849.584	140.970
Issued and fully paid:				
Ordinary shares of NV €0,20 each	43.275.979	8.655	43.275.979	8.655
Total issued share capital	43.275.979	8.655	43.275.979	8.655

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

33. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

THE GROUP AND THE BANK

Contingent liabilities	2021 €'000	2020 €'000
Guarantees issued	20.632	28.350

Commitments	2021 €'000	2020 €'000
Documentary credits	559	3.575
Undrawn commitments for loans and advances granted to clients	33.523	36.180
	34.082	39.755
Contingent liabilities and commitments	**54.714**	**68.105**

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

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

Capital Commitments

Commitments for contracted capital expenditure as at 31 December 2021 amount to €75 thousand (2020: €34 thousand).

34. FIDUCIARY TRANSACTIONS

The Group and the Bank offer fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group and the Bank are not liable to their customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group and the balance sheet of the Bank unless they are placed with the Group/Bank. Total assets under management and custody at 31 December 2021 amounted to €44.825 thousand (2020: €100.071 thousand) for the Group and €2.007 thousand (2020: nil) for the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Group's and of the Bank's financial instruments, which are not shown on the calculated fair value, are measured at amortized cost using the effective interest method less provision for impairment. The fair value of loans and advances to customers equals the amount shown in the statement of financial position after deducting provisions for impairment.

Where possible, the Group calculates the fair value of financial assets using prices in active markets. A market is considered active if prices are available in a stable and continuous basis where real transactions between market participants are frequently carried out under normal commercial practice.

When the market for some financial instruments is not active, the Group calculates fair value using various methods of valuation. Such valuation methods may include the use of prices from recent transactions made at an arm's length, the use of the current fair value of other similar instruments, discounted cash flow methods and option pricing models. The chosen valuation method is compatible with generally accepted accounting methodologies used to determine the value of financial instruments. The data used in the valuation techniques represent market expectations and measurements of the relationship between risk-return relating to the financial instruments.

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

Level 1: financial investments valued using quoted prices in active markets.

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

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

For assets and liabilities that are recognised in the financial statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period. During the year ended 31 December 2021 and 2020, the Group did not make any transfers into and out of the fair value hierarchy levels.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE (continued)

Financial instruments measured at fair value

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

THE GROUP
2021

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Equities	18	-	-	131	131
Debt securities	19	-	5.429	-	5.429
		-	5.429	131	5.560
Financial liabilities		-	-	-	-

THE GROUP
2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	19	-	5.573	-	5.573
		-	5.573	-	5.573
Financial liabilities		-	-	-	-

There were no transfers between levels during 2021 and 2020.

THE BANK
2021

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Debt securities	19	-	5.429	-	5.429
Investments in subsidiary companies	20	-	-	1.117	1.117
		-	5.429	1.117	6.546
Financial liabilities		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE (continued)

Financial instruments measured at fair value (continued)

THE BANK
2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments available for sale					
Debt securities	19	-	5.573	-	5.573
Investments in subsidiary companies	20	-	-	1.003	1.003
		-	5.573	1.003	6.576
Financial liabilities		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE (continued)

Non-financial assets measured at fair value

The following table presents an analysis of non-financial assets recorded at fair value by level of the fair value hierarchy.

THE GROUP

2021

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	22	-	-	5.413	5.413

2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	22	-	-	5.514	5.514

There were no transfers between levels during 2021 and 2020.

THE BANK

2021

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	22	-	-	5.413	5.413

2020

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises and equipment	22	-	-	5.514	5.514

There were no transfers between levels during 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE (continued)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level of the fair value hierarchy into which each fair value measurement is categorised.

THE GROUP

2021	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	166.985	-	166.985
Balances with other banks	-	3.266	-	3.266
Loans and advances	-	-	214.470	214.470
Investments in associates	-	-	294	294
	-	170.251	214.764	385.015
Financial liabilities				
Bank borrowings	-	-	2.749	2.749
Client deposits	-	-	437.808	437.808
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	112	112
	-	-	451.930	451.930

There were no transfers between levels during 2021 and 2020.

2020	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	186.928	-	186.928
Balances with other banks	-	59.719	-	59.719
Loans and advances	-	-	227.235	227.235
	-	246.647	227.235	473.882
Financial liabilities				
Bank borrowings	-	-	3.171	3.171
Client deposits	-	-	524.281	524.281
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	717	717
	-	-	533.169	533.169

There were no transfers between levels during 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

THE BANK

2021	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	166.985	-	166.985
Balances with other banks	-	3.193	-	3.193
Loans and advances	-	-	214.470	214.470
	-	170.178	214.470	384.648
Financial liabilities				
Borrowings	-	-	2.749	2.749
Client deposits	-	-	437.808	437.808
Loan capital	-	-	11.261	11.261
Provision for financial guarantees and commitments	-	-	112	112
	-	-	451.930	451.930

2020	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	186.928	-	186.928
Balances with other banks	-	59.635	-	59.635
Loans and advances	-	-	227.235	227.235
	-	246.563	227.235	473.798
Financial liabilities				
Bank borrowings	-	-	3.171	3.171
Client deposits	-	-	524.281	524.281
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	717	717
	-	-	533.169	533.169

There were no transfers between levels during 2021 and 2020.

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

Investments in subsidiaries
Investment in Global Capital Limited is categorised under level 3. For this investment the Group uses models which are not based on observable market data and takes into account mainly the net position of the entity in which the investment has been made, as well as estimates of the Group's management to reflect uncertainties in fair values resulting from the lack of data.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. FAIR VALUE (continued)

Financial instruments not measured at fair value (continued)

Investments in subsidiaries (continued)

A variance of 10% on the net asset value of the investment in subsidiary would have a positive or negative impact of €112 thousand on the Group's equity.

Investments in associates

Investment in CLR Investment Fund Public Limited is accounted for using the equity method in the consolidated financial statements. For the purpose of calculating the fair value this investment is categorised under level 3. The shares of CLR Investment Fund Public Limited are listed on the Cyprus Stock Exchange and for the calculation of the fair value the Group uses the price of the share as at 31 December 2021.

Balances with other banks

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

Loans and advances to customers

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

Premises

Premises consist of the Bank's freehold land and building in Nicosia used for own account. The fair value of premises is determined using valuations performed by external, accredited independent valuers (note 22).

36. CASH AND CASH EQUIVALENTS

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Cash	997	807	997	807
Balances with central banks	161.646	181.241	161.646	181.241
Balances with other banks	3.266	59.719	3.193	59.635
	165.909	241.767	165.836	241.683

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT

The Group, as a financial organisation, is exposed to risks, the most important of which are credit risk, market risk, liquidity risk and operational risk.

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

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

37.1 Credit risk

In the ordinary course of its business the Group is exposed to credit risk. Credit risk emanates from the potential inability of clients to repay their loans and other credit facilities and the non–compliance with their contractual obligations. Credit risk is monitored through various control mechanisms in order to prevent undue risk concentration and to price facilities and products on a risk adjusted basis.

The Group establishes the financing policies and sets limits on credit exposures to clients and ensures that these policies and limits, as well as the related credit sanctioning procedures and controls, are complied within the conduct of the Bank's operations. Credit risk from connected clients' accounts is monitored on an aggregated basis. The clients are classified into risk grades based on quantitative ratings derived from external models in combination with qualitative assessments.

The Group's policy relating to recognition of income on loans and advances and provisions for impairment of doubtful accounts is stated in notes 3 and 4.2 to the financial statements.

The Group sets limits for the composition of the portfolio of loans and advances and monitors compliance with them. The credit risk exposure of the Group is diversified across the various sectors of the economy. The terms of loans and advances may be renegotiated due to deterioration in the client's financial position. The Group implements a restructuring policy in order to maximise collection opportunities and minimise the risk of default. The revised terms usually include extending maturity, changing timing of interest and principal payments and amendments of terms of loan covenants.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality analysis

THE GROUP		2021				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		1.176	-	-	-	1.176
A1 - A3		1	-	-	-	1
Ba1 - Ba3		167.098	-	-	-	167.098
B1 – B3		406	-	-	-	406
Unrated		573	-	-	-	573
	16	169.254	-	-	-	169.254
Loss allowance		-	-	-	-	-
Carrying amount	16	169.254	-	-	-	169.254
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		103.835	55.310	-	5.305	164.450
Grade 4-5: Special mention		-	3.052	-	-	3.052
Non-performing		-	-	88.839	6.931	95.770
	17	103.835	58.362	88.839	12.236	263.272
Loss allowance	17	(702)	(3.367)	(44.699)	(34)	(48.802)
Carrying amount	17	103.133	54.995	44.140	12.202	214.470
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		81.135	48.048	5.496	11.358	146.037
Overdue less than 30 days		22.696	10.313	6.387	764	40.160
Overdue between 30-90 days		2	-	2.482	-	2.484
Overdue more than 90 days		2	1	74.474	114	74.591
Total	17	103.835	58.362	88.839	12.236	263.272
Debt securities						
Baa1 - Baa3		4.148	-	-	-	4.148
Ba1 - Ba3		107.624	-	-	-	107.624
	19	111.772	-	-	-	111.772
Loss allowance	19	(93)	-	-	-	(93)
Carrying amount	19	111.679	-	-	-	111.679
Financial guarantees and loan commitments						
Gross amount	33	53.241	595	187	132	54.155
Loss allowance	29	(112)	-	-	-	(112)
Carrying amount		53.129	595	187	132	54.043

NOTES TO THE FINANCIAL STATEMENTS

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37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality analysis (continued)

THE GROUP	Note	2020				
		Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		42.143	-	-	-	42.143
A1 - A3		16.407	-	-	-	16.407
Ba1 - Ba3		186.121	-	-	-	186.121
B1 – B3		1.092	-	-	-	1.092
Unrated		77	-	-	-	77
	16	245.840	-	-	-	245.840
Loss allowance		-	-	-	-	-
Carrying amount	16	245.840	-	-	-	245.840
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		106.825	57.687	-	13.398	177.910
Grade 4-5: Special mention		97	780	-	-	877
Non-performing		-	-	104.128	6.245	110.373
	17	106.922	58.467	104.128	19.643	289.160
Loss allowance	17	(2.388)	(1.346)	(57.942)	(249)	(61.925)
Carrying amount	17	104.534	57.121	46.186	19.394	227.235
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		96.814	49.253	6.119	15.514	167.700
Overdue less than 30 days		8.314	6.380	1.498	93	16.285
Overdue between 30-90 days		1	2.797	690	2	3.490
Overdue more than 90 days		1.793	37	95.821	4.034	101.685
Total	17	106.922	58.467	104.128	19.643	289.160
Debt securities						
Baa1 - Baa3		-	-	-	-	-
Ba1 - Ba3		82.356	-	-	-	82.356
	19	82.356	-	-	-	82.356
Loss allowance	19	(79)	-	-	-	(79)
Carrying amount	19	82.277	-	-	-	82.277
Financial guarantees and loan commitments						
Gross amount	33	57.597	3.523	1.264	2.146	64.530
Loss allowance	29	(589)	(128)	-	-	(717)
Carrying amount		57.008	3.395	1.264	2.146	63.813

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality analysis (continued)

THE BANK		2021				
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		1.176	-	-	-	1.176
A1 - A3		1	-	-	-	1
Ba1 - Ba3		167.037	-	-	-	167.037
B1 – B3		406	-	-	-	406
Unrated		561	-	-	-	561
	16	169.181	-	-	-	169.181
Loss allowance		-	-	-	-	-
Carrying amount	16	169.181	-	-	-	169.181
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		103.835	55.310	-	5.305	164.450
Grade 4-5: Special mention		-	3.052	-	-	3.052
Non-performing		-	-	88.839	6.931	95.770
	17	103.835	58.362	88.839	12.236	263.272
Loss allowance	17	(702)	(3.367)	(44.699)	(34)	(48.802)
Carrying amount	17	103.133	54.995	44.140	12.202	214.470
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		81.135	48.048	5.496	11.358	146.037
Overdue less than 30 days		22.696	10.313	6.387	764	40.160
Overdue between 30-90 days		2	-	2.482	-	2.484
Overdue more than 90 days		2	1	74.474	114	74.591
Total	17	103.835	58.362	88.839	12.236	263.272
Debt securities						
Baa1 - Baa3		4.148	-	-	-	4.148
Ba1 - Ba3		107.624	-	-	-	107.624
	19	111.772	-	-	-	111.772
Loss allowance	19	(93)	-	-	-	(93)
Carrying amount	19	111.679	-	-	-	111.679
Financial guarantees and loan commitments						
Gross amount	33	53.241	595	187	132	54.155
Loss allowance	29	(112)	-	-	-	(112)
Carrying amount		53.129	595	187	132	54.043

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality analysis (continued)

THE BANK

	Note	2020				
		Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		42.143	-	-	-	42.143
A1 - A3		16.407	-	-	-	16.407
Ba1 - Ba3		186.121	-	-	-	186.121
B1 – B3		1.049	-	-	-	1.049
Unrated		36	-	-	-	36
	16	245.756	-	-	-	245.756
Loss allowance		-	-	-	-	-
Carrying amount	16	245.756	-	-	-	245.756
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		106.825	57.687	-	13.398	177.910
Grade 4-5: Special mention		97	780	-	-	877
Non-performing		-	-	104.128	6.245	110.373
	17	106.922	58.467	104.128	19.643	289.160
Loss allowance	17	(2.388)	(1.346)	(57.942)	(249)	(61.925)
Carrying amount	17	104.534	57.121	46.186	19.394	227.235
Loans and advances to customers at amortised cost - gross carrying amount						
No days past due		96.814	49.253	6.119	15.514	167.700
Overdue less than 30 days		8.314	6.380	1.498	93	16.285
Overdue between 30-90 days		1	2.797	690	2	3.490
Overdue more than 90 days		1.793	37	95.821	4.034	101.685
Total	17	106.922	58.467	104.128	19.643	289.160
Debt securities						
Ba1 - Ba3		82.356	-	-	-	82.356
	19	82.356	-	-	-	82.356
Loss allowance	19	(79)	-	-	-	(79)
Carrying amount	19	82.277	-	-	-	82.277
Financial guarantees and loan commitments						
Gross amount	33	57.597	3.523	1.264	2.146	64.530
Loss allowance	29	(589)	(128)	-	-	(717)
Carrying amount		57.008	3.395	1.264	2.146	63.813

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK

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

	2020				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	46.570	21.030	31.301	7	98.908
Construction & real estate	35.372	11.547	16.586	17.778	81.283
Industry	4.180	1.985	15.062	-	21.227
Hotels & catering	9.506	22.703	9.187	1.219	42.615
Agriculture	561	-	12.728	-	13.289
Transport and storage	2.037	-	646	-	2.683
Other sectors	8.696	1.202	18.618	639	29.155
	106.922	58.467	104.128	19.643	289.160
Loss allowance	(2.388)	(1.346)	(57.942)	(249)	(61.925)
Carrying amount	104.534	57.121	46.186	19.394	227.235

Concentration by location

THE GROUP AND THE BANK

Concentration by location for loans and advances is based on the client's country of domicile. The carrying amount of loans and advances of the Group and the Bank relating to non-resident clients amount to €1.523 thousand (2020: €173 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK	2021 €'000	2020 €'000
Carrying amount		
Grade 1-3: Low-medium risk	160.764	174.083
Grade 4-5: Special mention	2.669	799
	163.433	174.882
Of which loans and advances with renegotiated terms	37.192	18.092
*Value of collateral security**		
Grade 1-3: Low-medium risk	116.570	125.525
Grade 4-5: Special mention	1.518	518
	118.088	126.043
Of which loans and advances with renegotiated terms	31.225	16.603

**Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK

2021		Performing loans and advances			Non-performing
	Total loans and advances €'000	Non-restructured €'000	Restructured €'000	Total €'000	loans and advances €'000
Loans and advances to corporate legal entities					
Services	61.842	38.638	6.022	44.660	17.182
Construction & real estate	67.170	35.667	16.222	51.889	15.281
Industry	9.942	2.133	1.824	3.957	5.985
Hotels & catering	36.466	15.464	13.369	28.833	7.633
Agriculture	7.734	-	-	-	7.734
Other sectors	1.547	-	-	-	1.547
	184.701	91.902	37.437	129.339	55.362
Loans and advances to retail legal entities					
Services	12.890	7.149	934	8.083	4.807
Construction & real estate	9.265	4.871	-	4.871	4.394
Industry	6.284	3.127	73	3.200	3.084
Hotels & catering	2.976	961	-	961	2.015
Agriculture	3.767	994	-	994	2.773
Transport and storage	2.357	1.732	-	1.732	625
	37.539	18.834	1.007	19.841	17.698
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	13.948	7.002	-	7.002	6.946
Consumer Loans	12.455	4.649	567	5.216	7.239
Current accounts	4.550	1.120	2	1.122	3.428
Credit facilities to sole traders	10.079	4.056	926	4.982	5.097
	41.032	16.827	1.495	18.322	22.710
Total loans and advances	263.272	127.563	39.939	167.502	95.770
Provisions	(48.802)	(1.322)	(2.747)	(4.069)	(44.733)
Carrying amount	214.470	126.241	37.192	163.433	51.037

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK

2020	Total loans and advances €'000	Performing loans and advances: Non-restructured €'000	Performing loans and advances: Restructured €'000	Performing loans and advances: Total €'000	Non-performing loans and advances €'000
Loans and advances to corporate legal entities					
Services	76.519	51.623	591	52.214	24.305
Construction & real estate	70.023	47.464	4.488	51.952	18.071
Industry	17.398	4.516	-	4.516	12.882
Hotels & catering	38.043	20.589	11.135	31.724	6.319
Agriculture	10.469	-	-	-	10.469
Transport and storage	1.037	1.037	-	1.037	-
Other sectors	1.440	-	-	-	1.440
	214.929	125.229	16.214	141.443	73.486
Loans and advances to retail legal entities					
Services	13.774	8.362	-	8.362	5.412
Construction & real estate	8.930	5.385	1.126	6.511	2.419
Industry	3.829	1.549	100	1.649	2.180
Hotels & catering	2.590	658	-	658	1.932
Agriculture	2.597	561	-	561	2.036
Transport and storage	1.494	1.000	-	1.000	494
Other sectors	-	-	-	-	-
	33.214	17.515	1.226	18.741	14.473
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	11.295	4.704	-	4.704	6.591
Consumer Loans	14.493	5.970	971	6.941	7.552
Current accounts	4.296	1.254	2	1.256	3.040
Credit facilities to sole traders	10.933	5.644	58	5.702	5.231
	41.017	17.572	1.031	18.603	22.414
Total loans and advances	289.160	160.316	18.471	178.787	110.373
Provisions	(61.925)	(3.526)	(379)	(3.905)	(58.020)
Carrying amount	227.235	156.790	18.092	174.882	52.353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date

THE GROUP AND THE BANK	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2021	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	23.392	5.788	1.028	20.430	5.655	921	2.000	-	1	962	133	106
Between one and two years	22.115	2.341	1.247	17.792	2.006	978	1.074	-	-	3.249	335	269
Between two and three years	21.615	2.526	1.719	17.507	2.498	1.627	2.393	-	5	1.715	28	87
Between three and five years	30.585	1.746	584	27.034	449	515	699	-	-	2.852	1.297	69
Between five and seven years	18.328	11.507	4.031	14.981	8.666	3.314	278	-	-	3.069	2.841	717
Between seven and ten years	26.334	12.447	3.283	16.141	3.276	1.926	7.081	6.946	689	3.112	2.225	668
Over ten years	120.903	59.415	36.910	108.355	50.510	30.556	423	-	-	12.125	8.905	6.354
	263.272	95.770	48.802	222.240	73.060	39.837	13.948	6.946	695	27.084	15.764	8.270

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

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

	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2020	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	27.914	1.404	1.243	23.387	1.094	1.022	1.029	-	1	3.498	310	220
Between one and two years	23.951	4.124	1.449	19.718	4.097	1.284	1.992	-	7	2.241	27	158
Between two and three years	22.325	168	158	20.228	125	126	609	-	-	1.488	43	32
Between three and five years	28.640	7.421	1.839	25.411	6.691	1.810	351	-	-	2.878	730	29
Between five and seven years	8.572	6.115	4.019	4.553	2.210	2.168	87	-	-	3.932	3.905	1.851
Between seven and ten years	53.062	24.919	9.417	40.279	15.870	8.305	6.922	6.591	270	5.861	2.458	842
Over ten years	124.696	66.222	43.800	114.567	57.872	38.370	305	-	-	9.824	8.350	5.430
	289.160	110.373	61.925	248.143	87.959	53.085	11.295	6.591	278	29.722	15.823	8.562

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

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

THE GROUP AND THE BANK

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

2020	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	10.519	3.534	6.985	6.180
Between three and six months	550	529	21	21
Between six months and one year	2.304	1.690	614	563
Over one year	97.000	52.267	44.733	39.364
Total	110.373	58.020	52.353	46.128
Of which loans and advances with renegotiated terms	51.770	16.636	35.134	33.138

*Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.

Credit committees determine the amount and type of collateral and other risk mitigation required for the granting of new loans to customers, having knowledge of Credit Sanctioning Department's assessment and for material exposures the Risk Department's assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral, bank guarantees, government guarantees, pledges of equity securities and debt instruments, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees. Onboarding and subsequent management of acquired properties due to repossession is carried out through a rigorous and transparent process. A dedicated Acquisitions and Disposals Committee (ADC) with senior executive participation has been formed which meets regularly for this purpose whilst all major decisions are brought before the Board of Directors.

The table below presents the maximum exposure to credit risk, the tangible and measurable collaterals held and the net exposure to credit risk. Personal and corporate guarantees are an additional form of collateral but are not included below since it is impracticable to estimate their fair value.

THE GROUP AND THE BANK

2021	Maximum exposure to credit risk €'000	Value of collateral* Cash €'000	Property €'000	Other €'000	Total collateral €'000	Net exposure to credit risk €'000
Loans and advances to customers						
Performing						
Stage 1	103.133	1.889	70.033	500	72.422	30.711
Stage 2	54.995	229	40.240	-	40.469	14.526
POCI	5.305	-	5.197	-	5.197	108
	163.433	2.118	115.470	500	118.088	45.345
Non-performing						
Stage 3	44.140	178	35.433	1.182	36.793	7.347
POCI	6.897	-	6.630	-	6.630	267
	51.037	178	42.063	1.182	43.423	7.614
	214.470	2.296	157.533	1.682	161.511	52.959
2020						
Loans and advances to customers						
Performing						
Stage 1	104.534	2.067	67.273	930	70.270	34.264
Stage 2	57.121	365	41.910	494	42.769	14.352
POCI	13.227	-	13.004	-	13.004	223
	174.882	2.432	122.187	1.424	126.043	48.839
Non-performing						
Stage 3	46.186	152	38.818	1.180	40.150	6.036
POCI	6.167	-	5.978	-	5.978	189
	52.353	152	44.796	1.180	46.128	6.225
	227.235	2.584	166.983	2.604	172.171	55.064

*Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Provisions for impairment of doubtful accounts on loans and advances

The table below discloses the accumulated impairment losses on the value of loans and advances as per IFRS 9.

THE GROUP AND THE BANK

	2021				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	2.388	1.346	57.942	249	61.925
Transfer from Stage 1 to Stage 2	(365)	365	-	-	-
Transfer from Stage 1 to Stage 3	(7)	-	7	-	-
Transfer from Stage 2 to Stage 3	-	(16)	16	-	-
Transfer from Stage 3 to Stage 2	-	161	(161)	-	-
Transfer from Stage 2 to Stage 1	344	(344)	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Exchange differences	-	-	-	-	-
Loans and advances written off	-	-	(17.899)	-	(17.899)
Charge/(reversal) for the year	(1.658)	1.855	4.796	(215)	4.778
Previously written off now recovered	-	-	(2)	-	(2)
31 December	702	3.367	44.699	34	48.802

POCI: Purchased or originated as Credit Impaired

During 2021 exposures of €20.131 thousand (2020: €375 thousand) were written off, out of which €12.961 thousand (2020: €nil) relate to accounting write offs.

	2020				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January	2.017	595	50.162	341	53.115
Transfer from Stage 1 to Stage 2	(587)	587	-	-	-
Transfer from Stage 1 to Stage 3	(22)	-	22	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 2 to Stage 1	113	(113)	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Exchange differences	-	-	-	-	-
Loans and advances written off	-	-	(98)	(234)	(332)
Charge/(reversal) for the year	867	277	7.901	142	9.187
Previously written off now recovered	-	-	(45)	-	(45)
31 December	2.388	1.346	57.942	249	61.925

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to Customers - analysis by rating agency designation

Balances with central banks and other banks

Balances with central banks and other banks are analysed by Moody's rating as follows:

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Aaa – Aa3	1.176	42.143	1.176	42.143
A1 – A3	1	16.407	1	16.407
Ba1 – Ba3	167.098	186.121	167.037	186.121
B1 – B3	406	1.092	406	1.049
Unrated	573	77	561	36
	169.254	245.840	169.181	245.756

37.2 Market Risk

Market risk is the risk of loss from adverse changes in market prices - namely from changes in interest rates, exchange rates and security prices.

37.2.1 Price risk

Equity securities price risk

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

The portfolio of equity investments at 31 December 2021 comprises of a holding in one Alternative Investment Fund. The Group didn't hold any equity investment at 31 December 2020.

Equity investments are stated in the financial statements at their assessed fair value which takes into account possible losses that may arise in relation to specific investments. A change in the value of equity investments classified as FVOCI affects the equity of the Group. The Group's policy relating to revaluation of equity investments at their assessed fair value is stated in note 3 to the financial statements.

The table below indicates how the equity of the Group will be affected from a change in the price of the equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.1 Price risk (continued)

Equity securities price risk (continued)

THE GROUP

	2021			2020		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities at FVOCI						
Non-listed investments	131	+20	26	-	+20	-
Non-listed investments	131	-20	(26)	-	-20	-

THE BANK

	2021			2020		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities at FVOCI						
Non-listed investments	1.091	+20	218	375	+20	75
Non-listed investments	1.091	-20	(218)	375	-20	(75)

Concentration of equity securities

THE GROUP

	2021 €'000	2020 €'000	2021 €'000	2020 €'000
By sector				
Shipping	131	-	-	-
	131	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.1 Price risk (continued)

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Bank. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Bank invests a significant part of its liquid assets in debt securities issued mostly by governments. The current portfolio of debt securities comprises of debt securities at FVOCI and debt securities at amortised cost. Changes in the value of securities at FVOCI affect the equity of the Group, whereas changes in the value of securities at amortised cost have no effect on equity. The Group's policy relating to valuation of debt securities, is stated in note 3 to the financial statements.

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

THE GROUP AND THE BANK

	2021			2020		
	Carrying amount €'000	Change in market prices %	Effect on equity €'000	Carrying amount €'000	Change in market prices %	Effect on equity €'000
Debt Securities						
For below A3 rated bonds	5.429	+10%	543	5.573	+10%	557
For below A3 rated bonds	5.429	-10%	(543)	5.573	-10%	(557)

Concentration of debt securities

	THE GROUP		THE BANK	
	2021 €'000	2020 €'000	2021 €'000	2020 €'000
By sector				
Sovereigns	111.679	82.277	111.679	82.277
Corporate bonds	-	-	-	-
	111.679	82.277	111.679	82.277
By country				
Cyprus	66.173	70.570	66.173	70.570
Greece	41.359	-	41.359	-
Italy	4.147	11.707	4.147	11.707
	111.679	82.277	111.679	82.277

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

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

THE GROUP 2021	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	165.988	-	-	-	-	997	166.985
Balances with other banks	2.267	999	-	-	-	-	3.266
Loans and advances	95.176	26.236	85.356	-	-	7.702	214.470
Investments in equities	-	-	-	-	-	131	131
Investments in debt securities	12.253	36.771	40.317	17.011	5.327	-	111.679
Investments in associates	-	-	-	-	-	672	672
Premises and equipment	-	-	-	-	-	6.558	6.558
Intangible assets	-	-	-	-	-	806	806
Stock of property	-	-	-	-	-	9.702	9.702
Receivables and other assets	-	-	-	-	-	1.595	1.595
Total assets	275.684	64.006	125.673	17.011	5.327	28.163	515.864
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.749	-	-	-	2.749
Client deposits	27.785	35.722	119.111	1.734	-	253.456	437.808
Deferred taxation	-	-	-	-	-	346	346
Accruals and other liabilities	-	-	-	-	-	24.814	24.814
Loan capital	-	-	11	-	6.250	5.000	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	30.231	30.231
Total liabilities and equity	27.785	35.722	121.871	1.734	6.250	322.502	515.864
Net position	247.899	28.284	3.802	15.277	(923)	(294.339)	-
Change in interest rates -1% - effect on profit	(2.479)	(283)	(38)	(153)	9	2.944	-
Change in interest rates +1% - effect on profit	2.479	283	38	153	(9)	(2.944)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

THE GROUP 2020	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	186.121	-	-	-	-	807	186.928
Balances with other banks	16.699	42.936	-	-	-	84	59.719
Loans and advances	107.542	23.291	88.894	-	-	7.508	227.235
Investments in debt securities	8.094	2.922	52.200	13.691	5.370	-	82.277
Premises and equipment	-	-	-	-	-	6.929	6.929
Intangible assets	-	-	-	-	-	871	871
Stock of property	-	-	-	-	-	10.225	10.225
Receivables and other assets	-	-	-	-	-	6.474	6.474
Total assets	318.456	69.149	141.094	13.691	5.370	32.898	580.658
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.171	-	-	-	3.171
Client deposits	31.259	44.053	113.787	1.039	-	334.143	524.281
Deferred taxation	-	-	-	-	-	440	440
Accruals and other liabilities	-	-	-	-	-	7.499	7.499
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	31.612	31.612
Total liabilities and equity	31.259	44.053	116.958	1.039	-	387.349	580.658
Net position	287.197	25.096	24.136	12.652	5.370	(354.451)	-
Change in interest rates -1% - effect on profit	(2.872)	(251)	(241)	(127)	(54)	3.545	-
Change in interest rates +1% - effect on profit	2.872	251	241	127	54	(3.545)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

THE BANK 2021	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	165.988	-	-	-	-	997	166.985
Balances with other banks	2.194	999	-	-	-	-	3.193
Loans and advances	95.176	26.236	85.356	-	-	7.702	214.470
Investments in debt securities	12.253	36.771	40.317	17.011	5.327	-	111.679
Investments and exposures in subsidiary companies	-	-	-	-	-	9.363	9.363
Premises and equipment	-	-	-	-	-	6.555	6.555
Intangible assets	-	-	-	-	-	806	806
Stock of property	-	-	-	-	-	1.331	1.331
Receivables and other assets	-	-	-	-	-	721	721
Total assets	275.611	64.006	125.673	17.011	5.327	27.475	515.103
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.749	-	-	-	2.749
Client deposits	27.785	35.722	119.111	1.734	-	253.456	437.808
Deferred taxation	-	-	-	-	-	346	346
Accruals and other liabilities	-	-	-	-	-	24.426	24.426
Loan capital	-	-	11	-	6.250	5.000	11.261
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	29.858	29.858
Total liabilities and equity	27.785	35.722	121.871	1.734	6.250	321.741	515.103
Net position	247.826	28.284	3.802	15.277	(923)	(294.266)	-
Change in interest rates -1% - effect on profit	(2.478)	(283)	(38)	(153)	9	2.943	-
Change in interest rates +1% - effect on profit	2.478	283	38	153	(9)	(2.943)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

THE BANK 2020	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	186.121	-	-	-	-	807	186.928
Balances with other banks	16.699	42.936	-	-	-	-	59.635
Loans and advances	107.542	23.291	88.894	-	-	7.508	227.235
Investments in debt securities	8.094	2.922	52.200	13.691	5.370	-	82.277
Investments and exposures in subsidiary companies	-	-	-	-	-	13.782	13.782
Premises and equipment	-	-	-	-	-	6.879	6.879
Intangible assets	-	-	-	-	-	862	862
Stock of property	-	-	-	-	-	529	529
Receivables and other assets	-	-	-	-	-	520	520
Total assets	318.456	69.149	141.094	13.691	5.370	30.887	578.647
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.171	-	-	-	3.171
Client deposits	31.259	44.053	113.787	1.039	-	334.143	524.281
Deferred taxation	-	-	-	-	-	440	440
Accruals and other liabilities	-	-	-	-	-	5.826	5.826
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	31.274	31.274
Total liabilities and equity	31.259	44.053	116.958	1.039	-	385.338	578.647
Net position	287.197	25.096	24.136	12.652	5.370	(354.451)	-
Change in interest rates -1% - effect on profit	(2.872)	(251)	(241)	(127)	(54)	3.545	-
Change in interest rates +1% - effect on profit	2.872	251	241	127	54	(3.545)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

Interest rate benchmark reform

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

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

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

On 16 November 2021, the Financial Conduct Authority of the United Kingdom (UK FCA) confirmed that they would permit the temporary use of the synthetic GBP and JPY LIBOR in all legacy LIBOR contracts, other than cleared derivatives that have not been changed at or ahead of the end of 2021. Also, under their new use restriction power they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. Given that EURIBOR was deemed to be compliant with the EU Benchmarks Regulation, it can continue to be used as a benchmark interest rate for existing and new contracts. Nonetheless, fallback rates to EURIBOR as well as fallback language in agreements involving EURIBOR are required.

The Group currently does not have exposures in currencies affected by the interest rate benchmark reform and therefore does not consider that the Group's exposure to EURIBOR is affected by the BMR reform as at 31 December 2021 and 2020, other than having to establish the required EURIBOR fallback rates and language. CDB established a project to manage the transition to alternative interest rate benchmarks and EURIBOR fallback requirements. The Head of Treasury is the project owner with oversight by the Assets and Liabilities Committee (ALCO). Major participants in the project are the Legal, Treasury, Finance, Risk Management and IT departments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.3 Currency risk

Currency risk arises from adverse movements in the rates of exchange arises when there is a net currency position (asset or liability) in one or more currencies. Net currency positions are monitored on a daily basis and the Group takes such measures so that this risk is contained within acceptable limits. The foreign exchange position limits prescribed by the Central Bank of Cyprus are adhered to.

THE GROUP AND THE BANK	2021			2020		
	Net open position	Change in exchange rates	Effect on profits	Net open position	Change in exchange rates	Effect on profits
Currency	€'000	%	€'000	€'000	%	€'000
US Dollar	91	+10	9	79	+10	8
British Pound	70	+10	7	(7)	+10	(1)
Russian Rouble	73	+30	22	282	+30	85
Other currencies	(1)	+10	-	5	+10	1
US Dollar	91	-10	(9)	79	-10	(8)
British Pound	70	-10	(7)	(7)	-10	1
Russian Rouble	73	-30	(22)	282	-30	(85)
Other currencies	(1)	-10	-	5	-10	(1)

37.3 Liquidity Risk

Liquidity risk refers to possible losses that may be incurred due to a potential inability of the Group to meet fully or promptly its cash flow obligations. This risk includes the possibility that the Group may have to raise funding at higher cost.

The Group's banking business requires a steady flow of funds, both to replace existing deposits as they mature and to satisfy customer requests for additional borrowings. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position. The Management Body, reviews at its regular meetings the liquidity position of the Group.

Treasury manages liquidity risk on a continuous basis by closely monitoring the relationship between cash flow obligations and liquid assets and timely action is being taken to secure financial resources to meet the Group's funding requirements. Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.3 Liquidity Risk (continued)

Key liquidity ratios

The Group LCR is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. The regulatory minimum requirement has been set at 100%. The Group also calculates its NSFR as per Capital Requirements Regulation II (CRR II), enforced in June 2021, with the limit set at 100%. The NSFR is the ratio of available stable funding to required stable funding. NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The LCR of the Group as at 31 December 2021 was 268% (31 December 2020: 423%) and the Bank 267% (31 December 2020: 417%), well above the regulatory minimum requirement of 100%. The NSFR of the Group as at 31 December 2021 was 194% and the Bank 192%, well above the regulatory minimum requirement of 100% imposed in June 2021.

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

THE GROUP

2021	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	425	-	2.324	2.749
Client deposits	281.241	35.722	119.111	1.734	-	437.808
Lease liability	25	31	131	493	-	680
Deferred taxation	-	-	-	-	346	346
Accruals and other liabilities	23.826	17	76	102	113	24.134
	305.092	35.770	119.743	2.329	2.783	465.717
OFF BALANCE SHEET						
Guarantees issued	1.936	1.539	7.777	8.307	1.073	20.632
Undrawn facilities	2.947	4.482	13.815	12.279	-	33.523
	4.883	6.021	21.592	20.586	1.073	54.155

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.3 Liquidity Risk (continued)

THE GROUP

2020

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	-	2.747	3.171
Client deposits	365.401	44.053	113.787	1.040	-	524.281
Lease liability	45	58	138	648	-	889
Deferred taxation	-	-	-	-	440	440
Accruals and other liabilities	4.700	23	1.032	136	719	6.610
	370.146	44.134	115.381	1.824	3.906	535.391
OFF BALANCE SHEET						
Guarantees issued	1.346	1.869	11.559	12.499	1.077	28.350
Undrawn facilities	4.132	5.681	13.959	12.408	-	36.180
	5.478	7.550	25.518	24.907	1.077	64.530

THE BANK

2021

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.3 Liquidity Risk (continued)

THE BANK

2020

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	-	2.747	3.171
Client deposits	365.401	44.053	113.787	1.040	-	524.281
Lease liability	44	54	120	624	-	842
Deferred taxation	-	-	-	-	440	440
Accruals and other liabilities	4.003	23	102	136	720	4.984
	369.448	44.130	114.433	1.800	3.907	533.718
OFF BALANCE SHEET						
Guarantees issued	1.346	1.869	11.559	12.499	1.077	28.350
Undrawn facilities	4.132	5.681	13.959	12.408	-	36.180
	5.478	7.550	25.518	24.907	1.077	64.530

Encumbered assets

Balances with other banks as at 31 December 2021 include encumbered amounts of €999 thousand (31 December 2020: €999 thousand).

37.4 Operational risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.4 Operational risk (continued)

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

37.5 Capital management

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group and for the Bank. The capital requirements of the subsidiary company Global Capital Securities and Financial Services Ltd are set and monitored by the Cyprus Securities and Exchange Commission.

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

Regulatory Capital Requirements	2021 €'000	2020 €'000
Pillar 1 – Total Capital Requirement	8,00%	8,00%
Pillar 2 – Total Capital Requirement	5,20%	5,20%
Capital Conservation Buffer	2,50%	2,50%
	15,70%	15,70%

The minimum Pillar I total capital requirement is 8% which should be met by at least 6% Tier 1 (T1) capital of which 4,5% minimum Common Equity Tier 1 (CET 1) capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar 1 capital requirements (Pillar 2 add-ons). Applicable Regulation allows a part of the Pillar 2 Requirements (P2R) to be met also with AT1 and T2 capital and does not require solely the use of CET1. In addition to the total SREP capital requirement, the Group is also required to maintain a capital conservation buffer of 2,50%. Based on the above, for 2021 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 9,93% (2020: 9,93%) and an overall capital adequacy ratio of 15,70% (2020: 15,70%).

Minimum CET1 Regulatory Capital Requirements	2021 €'000	2020 €'000
Pillar 1 – Total Capital Requirement	4,50%	4,50%
Pillar 2 – Total Capital Requirement	2,93%	2,93%
Capital Conservation Buffer	2,50%	2,50%
	9,93%	9,93%

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force, with CRR II being directly applicable in each member state, while CRD V shall be transposed into national law by each member state. The CRR II is an amending regulation, therefore the existing provisions of CRR apply, unless they are amended by CRR II.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.5 Capital management (continued)

The CRR II amended significantly the CRR in a number of aspects such as the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements. The majority of CRR II provisions were applicable from 28 June 2021.

CRD V was transposed and implemented in Cyprus law in early May 2021. Main changes relate to exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

On 12 March 2020, the ECB announced that banks are temporarily allowed to operate below the level of Pillar II Guidance (P2G) and the capital conservation buffer (CCB) and the countercyclical buffer. Furthermore, on 28 July 2020 ECB committed to allow banks to operate below the P2G and the combined buffer requirement until at least the end of 2022 without automatically triggering supervisory actions. In February 2022 the ECB announced that it will not allow banks to operate below the level of capital defined by their P2G beyond December 2022.

In June 2020 in response to the COVID 19 pandemic, regulation (EU) 2020/873 came into force which provides for certain amendments, bringing forward some of the capital relieving measures that were due to come into force at a later stage and introducing modifications as part of the wider efforts of competent authorities to provide the support necessary to the institutions.

The Group's CET 1 and overall adequacy ratio as at 31 December 2021 stood at 16,29% and 20,78% respectively, being above the regulatory capital requirements. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to ensure compliance with the relevant regulatory capital requirements and to maintain healthy capital adequacy ratios to cover the risk of its business and support its strategy.

Additional information on regulatory capital is disclosed in the Pillar 3 Disclosures Report, which is available on the Group's website www.cdb.com.cy

The Group's regulatory capital is analysed as follows:

Common Equity Tier I Capital:	It includes share capital, share premium, retained earnings, current year's profits, revaluation and other reserves. Intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier I Capital subject to transitional provisions.
Tier II Capital:	It includes unsecured subordinated bonds (note 31).
Additional Tier I Capital:	It includes the perpetual unsecured subordinated note (note 31).

The Group adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.5 Capital management (continued)

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

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

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Transitional basis:				
Regulatory capital				
Common Equity Tier 1	40.742	43.136	40.464	42.941
Additional Tier 1	5.000	5.000	5.000	5.000
Tier 2	6.250	-	6.250	-
Total regulatory capital	51.992	48.136	51.714	47.941
Risk weighted assets				
Credit risk	224.805	261.886	225.052	268.827
Operational risk	25.352	29.422	25.389	28.137
Total risk weighted assets	250.157	291.308	250.441	296.964
Common Equity Tier 1 ratio	**16,29%**	**14,81%**	**16,16%**	**14,46%**
T1 Capital ratio	**18,29%**	**16,52%**	**18,15%**	**16,14%**
Overall capital adequacy ratio	**20,78%**	**16,52%**	**20,65%**	**16,14%**

The capital ratios of the Group and the Bank as at the reporting date on a fully loaded basis are presented below:

	THE GROUP		THE BANK	
	2021	2020	2021	2020
	€'000	€'000	€'000	€'000
Fully loaded basis:				
Common Equity Tier 1 ratio	**15,45%**	**13,67%**	**15,32%**	**13,34%**
T1 Capital ratio	17,48%	15,41%	17,35%	15,05%
Overall capital adequacy ratio	**20,03%**	**15,41%**	**19,89%**	**15,05%**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.6 Leverage Ratio Requirements

The Basel III framework introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off-balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and is a binding requirement as from 1 January 2018. The leverage ratio is submitted to the regulatory authorities on a quarterly basis.

The Leverage Ratio of the Group as at 31 December 2021 was 8,47% (31 December 2020: 7,83%), and the Bank 8,53% (31 December 2020: 7,80%), well above the 3% minimum threshold applied by the competent authorities.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RISK MANAGEMENT (continued)

37.8 Revised Rules on Capital and Liquidity (CRR III and CRD VI and BRRD)

In October 2021, the European Commission adopted legislative proposals for further amendments to Capital Requirements Regulation (CRR), CRD IV and the BRRD (the "2021 Banking Package"). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD IV and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state. As a general matter, it is likely to be several years until the 2021 Banking Package begins to be implemented (currently expected in 2025); and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

38. CATEGORISATION OF FINANCIAL INSTRUMENTS

THE GROUP	Carrying amount €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2021				
Assets				
Cash and balances with central banks	166.985	166.985	-	-
Balances with other banks	3.266	3.266	-	-
Investments in associates	672	-	-	672
Loans and advances	214.470	214.470	-	-
Equity investments	131	-	131	-
Debt securities	111.679	106.250	5.429	-
	497.203	490.971	5.560	672
Liabilities				
Bank borrowings	2.749	-	-	2.749
Client deposits	437.808	-	-	437.808
Loan capital	11.261	-	-	11.261
	451.818	-	-	451.818
31 December 2020				
Assets				
Cash and balances with central banks	186.928	186.928	-	-
Balances with other banks	59.719	59.719	-	-
Loans and advances	227.235	227.235	-	-
Debt securities	82.277	76.704	5.573	-
	556.159	550.586	5.573	-
Liabilities				
Bank borrowings	3.171	-	-	3.171
Client deposits	524.281	-	-	524.281
Loan capital	5.000	-	-	5.000
	532.452	-	-	532.452

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

38. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

THE BANK	Carrying amount €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2021				
Assets				
Cash and balances with central banks	166.985	166.985	-	-
Balances with other banks	3.193	3.193	-	-
Investments in subsidiary companies	1.117	-	1.117	-
Loans and advances	214.470	214.470	-	-
Debt securities	111.679	106.250	5.429	-
	497.444	490.898	6.546	-
Liabilities				
Bank borrowings	2.749	-	-	2.749
Client deposits	437.808	-	-	437.808
Loan capital	11.261	-	-	11.261
	451.818	-	-	451.818
31 December 2020				
Assets				
Cash and balances with central banks	186.928	186.928	-	-
Balances with other banks	59.635	59.635	-	-
Investments in subsidiary companies	1.003	-	1.003	-
Loans and advances	227.235	227.235	-	-
Debt securities	82.277	76.704	5.573	-
	557.078	550.502	6.576	-
Liabilities				
Bank borrowings	3.171	-	-	3.171
Client deposits	524.281	-	-	524.281
Loan capital	5.000	-	-	5.000
	532.452	-	-	532.452

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

39. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

THE GROUP	2021 Less than one year €'000	2021 Over one year €'000	2021 Total €'000	2020 Less than one year €'000	2020 Over one year €'000	2020 Total €'000
ASSETS						
Cash and balances with central banks	162.643	4.342	166.985	182.049	4.879	186.928
Balances with other banks	3.266	-	3.266	59.719	-	59.719
Loans and advances	66.580	147.890	214.470	76.252	150.983	227.235
Investments in equities	-	131	131	-	-	-
Investments in associates	-	672	672	-	-	-
Investments in debt securities	89.342	22.337	111.679	63.215	19.062	82.277
Premises and equipment	-	6.558	6.558	2	6.927	6.929
Intangible assets	-	806	806	-	871	871
Stock of property	7.131	2.571	9.702	3.340	6.885	10.225
Receivables and other assets	856	739	1.595	-	6.474	6.474
Total assets	**329.818**	**186.046**	**515.864**	**384.577**	**196.081**	**580.658**
LIABILITIES						
Bank borrowings	424	2.325	2.749	424	2.747	3.171
Client deposits	436.074	1.734	437.808	523.241	1.040	524.281
Deferred taxation	-	346	346	-	440	440
Accruals and other liabilities	24.599	215	24.814	6.477	1.022	7.499
Loan capital	11	11.250	11.261	-	5.000	5.000
Total liabilities	**461.108**	**15.870**	**476.978**	**530.142**	**10.249**	**540.391**

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that there is an intention to sell.

Performing loans and advances are classified based on the contractual repayment schedule. Performing overdraft accounts are classified in the “less than one year” time band. The Stage 3 loans and overdrafts are classified in the “Over one year” time band.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

Customer deposits are classified according to contractual maturity. Current account balances are classified under the “less than one year” time band.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

39. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY (continued)

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

	2021			2020		
THE BANK	Less than one year €'000	Over one year €'000	Total €'000	Less than one year €'000	Over one year €'000	Total €'000
ASSETS						
Cash and balances with central banks	162.643	4.342	166.985	182.049	4.879	186.928
Balances with other banks	3.193	-	3.193	59.635	-	59.635
Loans and advances	66.580	147.890	214.470	76.252	150.983	227.235
Investments in debt securities	89.342	22.337	111.679	63.215	19.062	82.277
Investments and exposures in subsidiary companies	5.744	3.619	9.363	694	13.088	13.782
Premises and equipment	-	6.555	6.555	-	6.879	6.879
Intangible assets	-	806	806	-	862	862
Stock of property	1.331	-	1.331	406	123	529
Receivables and other assets	597	124	721	-	520	520
Total assets	**329.430**	**185.673**	**515.103**	**382.251**	**196.396**	**578.647**
LIABILITIES						
Bank borrowings	424	2.325	2.749	424	2.747	3.171
Client deposits	436.074	1.734	437.808	523.241	1.040	524.281
Deferred taxation	-	346	346	-	440	440
Accruals and other liabilities	24.212	214	24.426	4.797	1.029	5.826
Loan capital	11	11.250	11.261	-	5.000	5.000
Total liabilities	**460.721**	**15.869**	**476.590**	**528.462**	**10.256**	**538.718**

NOTES TO THE FINANCIAL STATEMENTS

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40. SHAREHOLDERS

The shareholding structure at 31 December 2021 is shown below:

	Shareholding structure as at 31.12.2021
Path Holdings Ltd	20,37%
Constantinos Shiacolas	17,52%
Delphis Investments Ltd	14,95%
Intergaz Ltd	9,96%
7Q Holdings Ltd	4,55%
7Q Invest AIF V.C.I.C. PLC I Multi Opportunities	5,44%
8Safe International Ltd	9,90%
Loramina Trading Ltd	6,80%
Leon Investment SARL	4,86%
Leonidas Ioannou	3,49%
CLR Investment Fund Public Ltd	1,41%
Holdings below 1%	0,75%

On 21 March 2022, 4.327.597 ordinary shares of nominal value €0,20 each, were transferred to 7Q Invest AIF V.C.I.C. PLC I Multi Opportunities from Path Holdings Ltd (1.397.987 shares), Constantinos Shiacolas (1.218.550 shares), Delphis Investments Ltd (1.029.926 shares) and Intergaz Ltd (681.134 shares).

Subsequently, 781.250 ordinary shares of nominal value €0,20 each were transferred from 7Q Holdings Ltd to 7Q Financial Services Ltd.

NOTES TO THE FINANCIAL STATEMENTS

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41. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

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

	2021 €'000	2020 €'000
Director emoluments		
Executives		
Salaries	273	234
Employers contributions for social insurance, etc	25	28
Retirement benefits	15	19
Compensation for terminations	-	400
	313	681
Non-executives		
Fees	194	250
	507	931
Key management personnel emoluments		
Salaries	600	679
Employers contributions for social insurance, etc	82	93
Retirement benefits	54	56
	736	828
Total	1.243	1.759

Members of the Management Body and connected persons

Connected persons include spouses, minor children and companies in which members of the Management Body, hold directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

Key management personnel

Key management personnel emoluments for 2020 include the remuneration of the members of the EXCO committee with voting rights and for 2019 the remuneration of the General Manager Administration and General Manager Banking.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. RELATED PARTY TRANSACTIONS (continued)

Transactions with members of the Management Body and connected persons:

	2021 €'000	2020 €'000
Loans and advances	582	641
Deposits	180	306
Unutilised limits	99	1
Loan commitments	445	-
Interest income for the year	19	19

All transactions with members of the Management Body and their connected persons are made on normal business terms.

Key Management personnel who are not Directors and their connected persons

Connected persons include spouses, minor children and companies in which the key management personnel who were not Directors hold, directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

	2021 €'000	2020 €'000
Loans and advances	287	465
Deposits	502	596
Guarantees and unutilised limits	106	97
Interest income for the year	3	3
Interest expense for the year	1	2

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

Balances and transactions with subsidiary companies are disclosed under note 20 to the financial statements.

Transactions with shareholders

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders (continued)

	2021 €'000	2020 €'000
Loans and advances	-	1.230
Deposits	10	2.910
Loan capital - suboridnated Tier 2 bonds	200	-
Guarantees and unutilised limits	-	501
Interest income for the year	1	52
Interest expense for the year	-	1

During the year ended 31 December 2021, there were no purchases of goods and services from Shareholders with significant influence and their connected persons as defined above (31 December 2020: nil).

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

Transactions with associates

	2021 €'000	2020 €'000
Loans and advances	749	-
Other trading receivables	14	-
Guarantees and unutilised limits	1	-
Interest income for the year	40	-
Other trading income for the year	10	-

Transactions with subsidiaries

Balances and transactions with subsidiary companies are disclosed under note 20 to the financial statements.

42. MATERIAL LITIGATION

As at 31 December 2021, there were pending litigations against the bank arising in the ordinary course of the Bank's business as well as a legal action by one of the Bank's shareholders. Based on the information available, the Group has not recorded a provision against these cases either because the probability of outflow is low or it is too early to make an assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

42. MATERIAL LITIGATION (continued)

Shareholder claim

A legal action by one of the Bank's shareholders (currently a shareholder of less than 7%) filed against the Bank, the Central Bank of Cyprus and other shareholders of the Bank. By the latter action the plaintiff challenges the agreement whereby it became shareholder in the Bank and a subsequent agreement (to which the Bank was not a party) under which it sold a substantial part of its holding to other shareholders. The Group's and Bank's current assessment is that it is not probable that this claim will cause economic outflows for the Group and the Bank. This claim is closely monitored.

Claims relating to execution of transactions

In September 2021 the Bank was served with a legal action against it by a client claiming certain wrongdoings by the Bank in accepting transfer instructions which allegedly relate to fraud by a third person. The litigation procedures are at a very early stage, and the Bank is closely monitoring this claim.

43. OPERATING ENVIRONMENT

During 2021, the restriction measures for the containment of COVID-19 were far less strict, allowing the restart of most of the economic sectors of the economy, aided by better international travel conditions. The return to growth was strong in 2021, with real GDP growth reaching 5,5% compared to an average of 5,3% in the EU27 and the Euro area. Strong growth was expected to continue going forward in 2022. However, economic conditions in 2022 are proving even more challenging with the onset of the Russian invasion in Ukraine at the beginning of the year.

Cyprus Economy

Following the COVID-19 crisis in 2020, when the Cyprus economy recorded a contraction, in 2021 the economy recovered strongly and returned to its pre-crisis levels. The GDP in 2021 increased by 5,5% in real terms, as opposed to a contraction of 5% in 2020 in real terms.

The positive GDP growth in 2021 from the expenditure side was mainly driven by higher exports and by private and public consumption. Private consumption increased by 3,7% in real terms, government consumption recorded an increase of 8,4%. Gross fixed capital formation was influenced by decreases in transport equipment and dwellings and recorded a decrease of 6,3%. Imports in real terms increased at a rate of 9,5% following the increase in private consumption, and exports, in real terms, increased significantly at a rate of 13,4% reflecting the significant increase in tourist arrivals.

In 2020, the COVID crisis caused a massive external shock to the economy and its impact spread over several sectors of production. In 2021, following the gradual abolition of most restrictions (including travel restrictions), all sectors and in particular those that were affected by the crisis recovered significantly. Value added increased in all sectors but it was most pronounced in the following sectors: Accommodation and food service activities (37,9%) as a result of an increase of 286,1% in revenues from tourism, Wholesale and retail trade; repair of motor vehicles and motorcycles (6,3%), Transportation and storage (11,1%), Information and communication (5,9%), Construction (6,3%) and Manufacturing (6,8%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. OPERATING ENVIRONMENT (continued)

Cyprus Economy (continued)

The unemployment rate has been declining since its peak in 2014, to 7,7% in 2020 and to 7,8% in the first three quarters of 2021. The labour market is gradually tightening because employment volumes are rising faster than increases in the labour force. On the supply side of the labour market, the labour force is constrained by slowing population growth, skill mismatches especially after the pandemic crisis, and low participation rates in segments of the population.

Inflation, as measured by the Harmonized Index of Consumer Prices (HICP), turned positive again and averaged at 2,3% in 2021 from a negative rate of 1,1% in 2020. Inflation is driven by developments in international oil prices, with a significant impact on domestic prices of energy products. For the period January-December 2021, compared to the corresponding period of the previous year, the largest change was noted in Transport (8,6%). The HICP, excluding energy and unprocessed food, in 2021 was 1%.

According to the preliminary Balance of Payments data for 2021, the current account balance of Cyprus recorded an improvement, with the deficit decreasing from 10,1% of GDP in 2020, to -7,3% of GDP, in 2021. The reduction in the current account deficit resulted from the improved surplus in services and the lower deficit of the secondary income. The aforementioned developments were partly offset by increased deficits in goods and primary income.

Imports of goods remained consistently higher than exports. The trade deficit in 2021 increased, as the increase in imports (driven by general merchandise) outweighed the positive developments in exports (associated with an increase in exports of general merchandise, exports of movable equipment as well as merchandising). In services, the increase in the surplus of services resulted almost entirely from the substantial increase in travel and, to a lesser extent, financial services. These developments were partially offset by the decrease in transport, telecommunications, computer and information services as well as other business services.

Cyprus public finances deteriorated sharply in 2020 as a result of the recession and the fiscal measures that were implemented to support the economy against COVID-19. The budget deteriorated from a surplus of 1,3% of GDP in 2019 to a deficit of 5,6% of GDP in 2020. Public finances strengthened in 2021 despite substantial government support measures and the budget deficit dropped to 1,8% of GDP. This was driven primarily by sharp increases in tax revenues and social security contributions in the second and third quarters. Expenditures rose at a much slower pace in the period following sharp increases the year before. General government debt remained almost unchanged in 2021 and the debt-to-GDP ratio declined from 115% at end-2020 to 103,9% at end-2021.

The Ministry of Finance projects that the economy will present a slowdown in 2022 due to the Russian-Ukraine conflict, turning to recovery trajectory again from 2023 onwards. Real GDP growth is forecast at 2,7% in 2022, 3,8% in 2023 and 3,4% in 2024.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. OPERATING ENVIRONMENT (continued)

Sovereign ratings

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting reduced banking sector risks, and improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system. Public debt remains high in relation to GDP but large-scale asset purchases from the ECB ensure favourable funding costs for Cyprus and ample liquidity in the sovereign bond market.

Most recently in March 2022, Fitch Ratings affirmed Cyprus' Long-Term Issuer Default rating at investment grade at BBB- since November 2018 and a stable outlook. The stable outlook reflects the view that despite Cyprus' exposure to Russia through its tourism and investment linkages, near-term risks are mitigated by a strengthened government fiscal position, and continued normalisation of spending after the pandemic shock. Meanwhile, medium-term growth prospects remain positive on the back of the government's Recovery and Resilience Plan (RRP).

Also in March 2022, S&P Global Ratings affirmed Cyprus' investment grade rating of BBB- and positive outlook. The positive outlook reflects the view that Cyprus' sovereign rating could be upgraded within the next 24 months if the country's economic and budgetary performance continues to strengthen, supported by the Government's implementation of structural reforms. In March 2022, S&P Global Ratings affirmed rating of BBB- and positive outlook stressing that despite the Ukrainian crisis and economic sanctions against Russia, the medium-term outlook for the Cyprus economy remains strong.

In July 2021, Moody's Investors Service upgraded the Government of Cyprus' long-term issuer and senior unsecured ratings to Ba1 from Ba2 (since July 2018) and changed the outlook from positive to stable. The primary driver for the upgrade was the material improvement in the underlying credit strength of the domestic banking system, which also reduces the risks of a systemic banking crisis.

In October 2021, DBRS Morningstar confirmed Cyprus' Long-Term Foreign and Local Currency Issuer Ratings at BBB (low) and upgraded its outlook from stable to positive trend. This reflects the expectation that Cyprus's public debt ratio will most likely return to its pre-pandemic downward path starting from 2021, supported by a solid economic growth and fiscal repair. In a March 2022 commentary DBRS Morningstar noted that Russia's invasion of Ukraine increases downside risks to otherwise strong medium term economic prospects.

Economic effects of the Ukrainian crisis

Even before the onset of the Russian – Ukraine war and despite the more favourable prospects, economic conditions were affected by the onset of an increase in inflation in late 2021 and problems in supply chains as an aftermath of the pandemic. The increase in inflation in 2021, attributed mainly to increases in the price of energy, was initially viewed as temporary, albeit more persistent than expected, due to factors such as base effect, supply bottlenecks and supply-demand shifts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. OPERATING ENVIRONMENT (continued)

Economic effects of the Ukrainian crisis (continued)

However, the Russian war in Ukraine brought about an increase in long-term inflation expectations. The war has accelerated price increases in raw materials such as energy, metals, and agricultural products for which Russia and Ukraine are important suppliers for the global economy. The inflation developments, along with the effects of the economic and financial sanctions imposed on Russia by Europe and the US, raise concerns of potential stagflation over the course of the year. Overall, uncertainty surrounding short and medium term growth forecasts is indeed quite high and will remain so as long as the military conflict continues.

In Cyprus, the economic effects of the Russian-Ukraine war are expected to be limited on effects in the tourism sector and inflation increases. Other transmission mechanisms, such as through the financial system are weak and growth prospects remain positive for 2022. In the Stability programme for 2022-2025 (published by Ministry of Finance in April 2022), real GDP growth for the Cyprus economy is forecast at 2,7% in 2022 (compared to 3,8% in the last Stability Programme Update), 3,8% in 2023, 3,4% in 2024 and 3,0% in 2025.

The onset of the war coincided with a period of increased energy prices that the EU has been experiencing as a result of the market disruptions due to the COVID-19 restrictions aftermath. Following the invasion of Russia in Ukraine, the EU responded with economic sanctions towards Russia that target specific economic sectors.

The impact of the war on commodity prices (oil, natural gas and other important materials), along with the impact of the economic sanctions, will differ across EU Member States. Cyprus' real economy may potentially be affected from this invasion via tourism and inflation. On tourism, Russia has a significant share in total arrivals especially in recent years. From 2010 onwards, Russian tourist arrivals have been increasing and constitute now the 2nd largest tourist destination. On average, in the years 2015-2019 the share of Russian tourist arrivals to the total amounted to 21,3% and Ukrainian tourist arrivals to 1,9%. For 2022, around 1,6 million passengers were expected from Russia and Ukraine (1,3 and 0,3 million equivalently) which translates to 800.000 arrivals.

Despite the fact that Russia is the second biggest market in arrivals, Russian citizens mainly come by organized tour operators and their per capita expenditure is not that high compared to visitors from other EU countries. Notably, their average daily expenditure is below the average daily. The daily spending of visitors from Countries like Switzerland and Israel is more than 150% of the Russian visitors. For this reason, the actual impact of the lost Russian tourists on GDP becomes less in terms of revenue. According to an estimate by the Statistical Service of Cyprus, the impact on the economy if there are zero arrivals from Russia and Ukraine in 2022, taking into accounts all related sectors, is only 0.6% in growth although in arrivals or revenues loss the effect appears much higher. And this is all else equal, i.e. does not include substitution from other markets or enhancement of the existing ones. Out of the 800.000 arrivals lost, a part of them of around 200.000 - 300.000 can be replaced by other countries (Belgium, Switzerland, Scandinavia etc.) according to the efforts made by the Deputy Ministry of Tourism. In 2022 arrivals are expected to increase, with the worst-case scenario being the same as in 2021. In 2021 arrivals from the UK were much lower than usual, but they are expected to pick up this year and with the addition of new destination markets and air connectivity, with higher per day expenditure, total revenues from tourism are expected to be higher than 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. OPERATING ENVIRONMENT (continued)

Economic effects of the Ukrainian crisis (continued)

Regarding other exports of services, there will be an impact. A small part will be compensated by its import counterpart. Legal and accounting services will be possibly affected but as uncertainty prevails it is difficult to make and estimation.

Cyprus has relatively tight economic relations to Russia and this can be seen by the high number of Russians living in Cyprus and companies of Russian origin and interests. These ties are attributed to the familiar and trusted legal system that Cyprus offers based on common law, its reputation as an international financial center which provides high quality of professional business, financial and consulting services, and even ties related to the same religion. These companies have no special treatment now, and after signing the amended double tax agreement with the Russian Federation (which applies as of January 2021), they have the same obligations. It is expected though that due to sanctions these companies will not be allowed to perform transactions in Russia with Russian banks and therefore their liquidity and profits might be reduced causing lower revenues for the Government in terms of taxes received.

Trade in goods with Russia and Ukraine is very small and is not expected to have an impact on the economy. Specifically, Cyprus is on average a net exporter to Russia in goods.

On Foreign Direct Investment (FDI), and the relatively big amount of FDI flow and stock with Russia, it is noted that on average, between 2018-2020, Cyprus recorded net FDI outflow to Russia. Additionally, SPEs have a large contribution in Cypriot FDI, and these entities have similar inward and outward income due to the structure of their financial assets and liabilities. This makes the effect on the real economy small. Russians invest in all sectors of activity; therefore no specific sector will be affected.

Nevertheless, the final impact on the exports of services and the FDI will depend as previously mentioned on the duration of the war, the sanctions imposed and retaliatory moves by Russia.

The property market and shipping are two sectors not expected to be affected. Russian citizens used to have a significant share in the past in the foreign demand for properties in Cyprus, partly due to the Cyprus Investment Programe (CIP). Following its termination in 2020, demand reduced significantly but has been replaced by local demand.

Shipping in Cyprus is German dominated, so there will be no impact on this sector from the sanctions on Russian ships.

Cyprus mainly imports oil from other countries (like Greece, Italy, the Netherlands) and not Russia, and thus has no dependence from Russia’s natural gas directly. Nevertheless, it is indirectly affected by the international oil price increases. Cyprus will be affected by the increase in international prices since it is oil dependent and imports of oil present a significant share in imports of goods. In volume terms, the impact will be lower after the effect of the prices is removed. Higher energy and commodity prices (like wheat and metals) will be channelled in other sectors of the production line and on the final product cost (depending how much of the increase will be absorbed by the producer/seller) affecting private consumption and construction (construction materials). Higher energy prices will affect total final consumption directly via electricity (which is around 2,4% of total final consumption) and fuels (which are around 5% of total final consumption).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. OPERATING ENVIRONMENT (continued)

Economic effects of the Ukrainian crisis (continued)

On interest rates, already the Federal Reserve (FED) and the Bank of England (BoE) have increased the main interest rates. ECB is holding a no changed position. The interest rates increase will cause an increase in the borrowing cost for both consumers and business thus affecting investments and the creation of possibly new NPLs.

Banking sector overview

The banking sector increased by €7 billion in terms of assets over 2021 owing to Eurosystem market operations undertaken by the largest Cypriot banks. As a proportion to GDP the sector size increased from 273% to 287% over 2021. As the asset growth is attributed to cash this development is considered as carrying low risks. In terms of breakdown, banks have been generally following a shift towards less risky assets, namely cash and government bonds, which together make up about half of their balance sheet. Loans remain naturally the largest asset category at 42% of total assets, albeit being lower than the respective European average.

In March 2022 RCB Bank, the third largest bank in terms of asset size, announced the intention to give up its banking license, repay all deposits and convert to an asset management company as a result of geopolitical developments which had affected its business model and prospects. This development will consolidate further the banking sector in terms of both asset size and number of institutions. Moreover, given RCB Bank's non-resident loan stock, the Cypriot banking sector will be almost entirely domestically focused.

The banking sector remains well capitalised. The CET1 ratio reached 17,5% at end 2021 recording a small decrease compared to 17,7 % at end 2020, due to the phasing in of IFRS9. The solvency ratio increased slightly from 20,4% to 20,5%. following the issuance of a Tier II bond by Bank of Cyprus. While profitability improved over 2021, due to lower loss provisioning, profitability remains a challenge, amidst a low-interest environment and cost rigidities.

In terms of liquidity, Cypriot banks continue to maintain relative high buffers, with both Liquidity Coverage Ratio and Net Stable Funding Ratio considerably exceeding the regulatory minimum requirement. Liquidity is deposit-funded in Cyprus, with the share of other instruments, such as bonds, quite low. Household and corporate domestic deposits increased over 2021 as a result of both the growth in economic activity and precautionary build-up of savings. Non-resident deposits, despite recording small increases over 2021, maintained a share of 18% to total deposits, similar to end 2020 and lower over the previous years. Non-resident deposits are comprised of both Euro area and third country deposits. Total Euro area and third country household and corporate deposits at end 2021 were €2,8 billion and €6.4 billion respectively. Total deposits in the system of Russian households and corporates were €0.6 billion out of a total of €51,5 billion at end 2021.

Non-performing loans (NPLs) declined from €5,3 billion to €3,0 billion between December 2020 and December 2021 as a result mainly of sales and write-offs. The NPL ratio declined from 18% to 11% respectively. Excluding the NPLs of third-country branches, for which risk lies with the parent entity, NPLs for locally authorised and subsidiary banks at end December 2021 were €2,6 billion or 9,8% of gross loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. OPERATING ENVIRONMENT (continued)

Banking sector overview (continued)

NPLs are now a small fraction of the peak of €29 billion portfolio in 2014, reaching the single-digit threshold for the first time since then. The continuous and steady progress on asset quality has been the result of collective efforts by all stakeholders and was achieved through the utilisation of various NPL management and resolution tools, regulatory reforms and supervisory actions.

As regards the potential for new NPLs, the pandemic has to date not caused significant new inflows of NPLs. Moreover, the fact that post loan instalment moratorium, repayments have resumed with very low arrears and default rates is encouraging but further monitoring and pre-emptive restructurings by banks are essential.

Indeed, the Stage 2 loan population has increased by 34% from €2,9 to €3,8 billion between the two year period of December 2019 and December 2021. Moreover, due to the ongoing geopolitical developments, which may impact certain sectors of the economy, new inflows of NPLs in the near future are a possible scenario.

Ministry of Finance has proposed further enhancement of the legal framework for NPL resolution with non-bank entities. The current proposal in the legislative framework concerns the access to the credit registry and land registry by credit servicers and credit acquirers. This would strengthen their resolution capabilitites, and address inefficiencies in the secondary loan market. The relevant bills have been the subject of parliamentary discussion since March 2021.

44. EVENTS AFTER THE REPORTING PERIOD

Ukrainian crisis

Russia's invasion of Ukraine on 24 February 2022, triggered the biggest refugee crisis in Europe since World War II, and severely set back the global recovery. The invasion triggered the implementation of sanctions by the EU, UK and the U.S., in a coordinated effort joined by several other countries, imposed against Russia, Belarus and certain regions of Ukraine and certain Russian entities and nationals. The Group takes all necessary actions to comply with all applicable laws, including sanctions and export controls. The effects of conflict and sanctions will hit Ukraine, Russia, and Belarus directly, but international spillovers via global commodity prices, trade and financial linkages, labor supply, and humanitarian impacts will spread the effects more widely especially in Europe.

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

- Loan balances extended to entities with ultimate beneficial owners from Russia amounted to €1,2 million of which €1,0 million (or 85%) relates to a single loan secured by mortgaged property in prime location in favour of the Bank with market value of c. €8,5 million. The remaining amount of €0,2 million mainly relates to loans classified as non-performing, assigned from the Bank's Russian subsidiary JSC cdbbank which was liquidated under a voluntary wind-up process completed in September 2019. No loans extended to entities with ultimate beneficial owners from Ukraine or Belarus.

- Total interbank balances maintained with Russian institutions amount to €1,7 million. No interbank balances maintained with Ukrainian or Belarusian institutions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

44. EVENTS AFTER THE REPORTING PERIOD (continued)

Ukrainian crisis (continued)

- Deposits by individuals or legal entities with ultimate beneficial owners from Russia, Ukraine and Belarus amounted to €26 million, €17 million and €3 million respectively.
- A long foreign exchange position in rubbles of €8 thousand.
- No outstanding LGs, LCs or Bills of Exchange the repayment of which depends on Russian based entities.

The impact of the Russian-Ukraine conflict on the macroeconomic variables for Cyprus economy may potentially impact the expected credit loss calculation on loans and advances to customers, the fair values of the financial assets held at fair value in the consolidated and separate statement of financial position, as well as impairment calculations for assets held at cost (e.g. stock of property).

The financial effect of the Ukrainian crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the conflict prevails and the high level of uncertainties arising from the inability to reliably predict the outcome. The Group's Management will continue to monitor the situation closely, taking all necessary and appropriate measures to minimise the impact on its operations and financial performance, as well as to manage all related risks and comply with the applicable sanctions.

There were no other material events after the reporting period which affect the consolidated and the separate financial statements of the Company as at 31 December 2021.

The consolidated and the separate financial statements of the Company were approved by the Board of Directors of the Company on 9 June 2022.

cdbbank
THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED, 50 ARCH. MAKARIOS III AVE, 1065 NICOSIA, CYPRUS, TEL: +357 22846500, FAX: +357 22846600, website: www.cdb.com.cy