The Cyprus Development Bank Group

Annual Report and Financial Statements

For the year ended 31 December 2019

CONTENTS

DIRECTORS AND ADVISERS

Management Body

Christodoulos Patsalides, Chairman, Non-Executive (appointed on 10.03.2020)

Neoclis Nicolaou, Vice Chairman, Non-Executive

George Loizou, Non-Executive (Acting Chairman 16.11.2018-10.03.2020)

Andreas Loizou, Non-Executive

Menelaos Shiacolas, Non-Executive

George Pavlides, Non-Executive

Wahid Pierre Chammas, Non-Executive

Costas Poullis, Non-Executive (appointed on 26.02.2019)

Avgoustinos Papathomas, Non-Executive (appointed on 07.05.2019)

Christodoulos Plastiras, Non-Executive (appointed on 07.05.2019)

Costas Argyrides, Executive

Stella Avraam, Executive (appointed on 27.09.2019)

Chief Executive Officer

Costas Argyrides

Secretary

Maria Agathokleous

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

KPMG Limited

14 Esperidon Street

1087 Nicosia

Registered office

50, Arc. 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 2019.

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 notes 21 and 22 to the financial statements.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 35.

The Group profit before provisions for impairment for the year ended 31 December 2019 amounted to €5,4 million, an increase of 73% compared to the corresponding profit of €3,1 million for the year ended 31 December 2018. The increase is mainly attributable to (a) the reduced interest expense which amounted to €2,2 million in 2019 compared to €3,6 million in 2018, (b) the profit of €1,5 million realised from the disposal of properties and (c) the profit of €1,0 million realised from the disposal of debt securities.

The Group profit after provisions for impairment for the year ended 31 December 2019, amounted to €3,1 million compared to a corresponding loss of €1,3 million for the year ended 31 December 2018. The transfer of the foreign currency reserve of €2,9 million from Other Comprehensive Income to the Income Statement represents exchange losses incurred in previous years on the valuation of the Russian subsidiary JSC cdbbank, transferred to the Income Statement upon the completion of its voluntary wind-up in September 2019, resulting to a marginal profit of €162 thousand before tax from continuing operations.

After losses of €0,4 million from discontinued operations, relating to the Russian subsidiary JSC cdbbank, and taxes of €0,7 million, the Group reported a loss of €0,9 million for 2019 compared to a loss of €2,2 million for 2018.

The total comprehensive income for the year ended 31 December 2019 amounted to €3,4 million compared to a total comprehensive loss of €2,5 million for the year ended 31 December 2018.

Income Statement Analysis

Net interest income
The Group's net interest income for 2019 was €10,7 million, an increase of 8% compared to €9,9 million for 2018. The main factor that contributed to the increase of net interest income was the decrease of interest expense which amounted to €2,2 million for 2019 and was 39% lower compared to €3,6 million for 2018.

The Group's net interest margin for 2019 amounted to 1,87% compared to 1,80% for 2018.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Income Statement Analysis (continued)

Non-interest income

The Group's total non-interest income for 2019 amounted to €6,5 million, recording an increase of 59% compared to €4,1 million for 2018 mainly due to a profit of €1,5 million realised on the disposal of properties and €1,0 million profit realised on the disposal of Cyprus Government Bonds during the second quarter of 2019. Net fee and commission income for 2019 amounted to €3,1 million for 2019, recording an increase of 9% compared to €2,9 million for 2018 while net foreign exchange gains amounted to €0,8 million for 2019, a decrease of 10% compared to €0,9 million for 2018.

Expenses

Group staff costs for 2019 amounted to €7,1 million compared to €6,8 million for 2018, recording an increase of 4% and accounted for 60% of the Group's total expenses. The main drivers of the increase were the annual increments to staff as per collective agreements, and the introduction of contributions of 1,85% on the employees' gross salaries to the General Health Scheme from March 2019 onwards.

The Group's total other operating expenses for 2019 amounted to €3,7 million, recording an increase of 9% compared to €3,4 million for 2018 mainly due to increased consultancy and legal fees.

Provisions for impairment

The Group's total provisions for impairments for 2019 amounted to €2,3 million, compared to €4,4 million for 2018, recording a decrease of 47%.

The lower provision charge in 2019, can mainly be attributed to (a) the improved security position of the existing portfolio as a result of the successful completion of certain major restructurings, and (b) the improved macroeconomic indices of 2019 used in estimating the cashflows of the non-performing portfolio and the improved macroeconomic variables (compared to last year) of the three economic scenarios (baseline, optimistic, pessimistic) used in the calculation of the collective impairments.

Discontinued Operations

In line to the stated strategy of disengaging from its Russian operations, the Bank proceeded back in October 2018, with an application to the Central Bank of Russian Federation (CBRF) for the voluntary winding-up of JSC cdbbank which was approved in December 2018. The wind-up was successfully completed by September 2019, at a loss of €0,4 million which mainly comprises operating expenses and provisions for impairment of JSC cdbbank up to the date of final winding-up of operations.

Statement of Financial Position Analysis

Loans and advances

The Group's gross loans and advances as at 31 December 2019 amounted to €281 million decreasing by 10% compared to €313 million as at December 2018, mainly due to the de-risking of the Group's balance sheet through the resolution of NPEs and restricted new lending.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

Statement of Financial Position Analysis (continued)

Loans and advances (continued)

During the year, the Group continued its efforts towards improving the quality of the loan portfolio. At 31 December 2019 NPEs amounted to €107 million a decrease of 14% compared to €125 million at 31 December 2018. The NPE ratio stood at 38% at 31 December 2019 a decrease of 2 percentage points from 40% at 31 December 2018. The NPEs provision coverage ratio stood at 47% at 31 December 2019, compared to 50% at 31 December 2018, the decrease mainly being attributed to write offs of €19 million fully provided NPEs.

The Group remains committed in pursuing the further decrease of NPEs, by deploying the entire toolkit available under current legislation, namely restructurings, amicable settlements, legal measures, debt-for-asset swaps and foreclosures, receiverships and examinerships. At the same time the Group is now posed to growth through prudent new lending and maintaining and strengthening client relationships.

Deposits

The Group deposits amounted to €496 million as at 31 December 2019, a decrease of 4% compared to €516 million as at 31 December 2018. Customer deposits accounted for 89% of total assets at 31 December 2019 and net loans to deposit ratio stood at 46% at 31 December 2019.

Liquid assets

The Group's carrying value of liquid assets amounted to €298 million at 31 December 2019 representing 54% of the total assets of the Group (31 December 2018: €311 million). Liquid assets comprise of cash and balances with Central Bank, placements with other banks and investments in debt securities.

Cash balances with Central Bank and other banks amounted to €202 million at 31 December 2019 compared to €232 million at 31 December 2018.

Investments in debt securities amounted to €95,9 million as at 31 December 2019 compared to €79,6 million at 31 December 2018. The Group's investments comprised mainly sovereign bonds and treasury bills and supranational organisations debt securities.

Foreign subsidiary voluntary winding-up

In line to the stated strategy of disengaging from its Russian operations, the Group proceeded back in October 2018, with the application to Central Bank of Russian Federation (CBRF) for the voluntary winding-up of JSC cdbbank which was approved in December 2018. The winding-up was successfully completed in 2019 as follows:

- In April 2019 CBRF provided an Interim Approval for the liquidation of JSC cdbbank;
- In May 2019 all liabilities of JSC cdbbank, including client deposits, were repaid and within the same month, the Bank received from JSC cdbbank the amount of €2,5 million for settlement of the subordinated loan extended to the Russian subsidiary;
- In July 2019 CBRF approved the Final Liquidation Accounts of JSC cdbbank and within the same month the amount of €1,2 million (RUB87 million), representing part of the Bank's investment in the Russian subsidiary was repatriated.

After the completion of the winding-up, the Group's net exposure in Russia amounted to €0,7 million as at 31 December 2019 compared to €4,8 million as at 31 December 2018.

MANAGEMENT REPORT (continued)

GOING CONCERN

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The conditions that existed during 2019, the developments up to the date of approval of these financial statements and Management's projections have been considered by the Directors in the going concern assessment 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 Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the financial performance of the Group, the risks emanating from the economic environment and the risks that arise to the economy from the unprecedented conditions emanating from the COVID-19 pandemic, and consider that the going concern principle is appropriate.

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 the Risk Management Unit, the Bank's ALCO committee, the Management Body's Risk Management Committee and the Management Body. Description of the Group's risk management framework is set out in note 37 to the financial statements.

SHARE CAPITAL

As at 31 December 2019, there were 43.275.979 issued ordinary shares with a nominal value of €0,20 each (31 December 2018: 12.961.354 Class "A" shares of €1,71 each and 13.000.000 Class "B" shares of €1,00 each). Information about the changes of the authorised and issued share capital during 2019 and 2018 is disclosed in Note 33 to the financial statements.

SHAREHOLDERS

The shareholding structure as at 31 December 2019 is presented in note 40 to the financial statements.

CAPITAL MANAGEMENT

For 2019 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 12,20% (2018: 11,575%) and an overall capital adequacy ratio of 15,70% (2018: 15,075%).

The Group's CET 1 and overall adequacy ratio as at 31 December 2019 stood at 15,38% and 17,07% respectively on a transitional basis and 14,56% and 16,26% respectively on a fully loaded basis, being within the minimum regulatory requirement both on a transitional and on a fully loaded basis.

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.

MANAGEMENT REPORT (continued)

CAPITAL MANAGEMENT (continued)

During 2019 the Bank implemented successfully its Financial and Capital Plan, the main objectives of which were to enhance the capital adequacy through both a rights issue as well as management actions, to ensure that the Group has sufficient resources and capital to support its current activities

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

STRATEGY AND PRIORITIES

In 2019, significant steps have been taken to support the implementation of the Group's stated strategic priorities including strengthening its capital resources, attainment of targets for the reduction of the stock of NPEs, improvement of the REO management framework and setting the foundations for fee income generation.

The outbreak of novel coronavirus disease in 2019 has shaken the world and has been the cause of major disruptions in the worldwide supply and demand chains. As a result, growth projections for 2020 were revised to deep recession, for most countries around the world and the world economy, in general. For Cyprus the IMF is forecasting a negative growth of 6,5% in 2020 to be followed by a sharp recovery of 5,8% in 2021. The majority of the sectors contributing most to GVA are expected to experience a reduction in output in the range of 30%-40% driven by both lower demand and reduction in supply.

The Group although remaining focused on the implementation of its strategic objectives, acted proactively, in light of the current conditions, and reassessed it tactical targets for 2020. During the rest of 2020 the Group will remain committed to providing the necessary support to its clients through these difficult and unprecedent conditions as well as safeguarding its operating profitability.

The Group's medium-term objectives are focused on preserving its Capital adequacy position, on increasing its operating profitability through the prudent increase of its loan portfolio, the strengthening and enhancement of its investment banking operations and the diversification of income streams by optimising its fee income from related activities. At the same time the reduction of NPEs, the monetization of the Bank's REO portfolio and improvement of the Bank's loan portfolio through the implementation of sustainable restructuring solutions remains a top priority for the Group. The Group will also focus on the provision of asset management and investment and advisory services, through its subsidiary company Global Capital Securities and Financial Services Ltd.

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 advantage of the improved macro-economic conditions and the increased customer confidence towards the banking sector.

Emphasis is placed on ensuring the effectiveness of its risk management and compliance frameworks through prudent risk policies and measures, focusing on the growth of a healthy loans and advances portfolio and expanding its good client base.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

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. The planned upgrade of the core banking system in 2020-2021, the recalibration of our processes, along with the centralization of services and the enhancement of digital channels and the rollout of new products and services (e.g. implementation of debit cards) are expected to contribute significantly in providing our customers an upgraded customer experience.

In line to the stated strategy of disengaging from its Russian operations, the Bank proceeded in October 2018 with an application to Central Bank of Russian Federation (CBRF) for a voluntary wind up, which was approved in December 2018. The winding-up process was successfully completed within the third quarter of 2019 in line to the original plan.

BRANCHES

The Bank carries out its activities through its head office and two business centres, 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" and "Board of Directors" in the financial statements) are set out on page 3.

Directors George Loizou, Neoclis Nicolaou, Andreas Loizou, Menelaos Shiacolas, George Pavlides, Wahid Pierre Chammas and Costas Argyrides served on the Management Body throughout the year 2019.

Mr. Costas Poullis was appointed member of the Management Body on 26 February 2019 and Messrs Avgoustinos Papathomas and Christodoulos Plastiras were appointed on 7 May 2019. Mrs. Stella Avraam was appointed member of the Management Body on 27 September 2019.

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2020, 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 Governance and Management Arrangements of the Central Bank of Cyprus (the 'CBC Governance Directive').

Details on how the Group has applied the provisions of the CBC Corporate Governance Directive are

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

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. The Board has delegated the 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 Nominations and Remunerations Committee ('the NRC') and the Credit Committee ('the CC'). Details of these Committees are provided in the sections to follow. The Chairman of each committee reports on matters discussed during committee meetings to the subsequent scheduled meeting of the Board. The Committees terms of reference are available on the Bank's website www.cdb.com.cy.

The Group as part of its monitoring and review process has recently proceeded with a wholistic review of its Corporate Governance Framework.

2. Board of Directors

The authorities of the members of the Board derive from the Articles of Association of the Bank and are specified by Banking Laws and the Directives of the Central Bank of Cyprus (CBC).

The Board is 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 and approves and oversees the implementation of the Group's strategic objectives, risk strategy and internal governance.

2.1. The role of the Board of Directors

The Board has the primary responsibility for setting the strategic objectives of the Group and ensuring that the necessary human and financial resources are in place to meet the strategic and operational objectives.

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;
- 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

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

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.

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.

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 the Group Chief Executive Officer ('the Group 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 management, credit exposures and the Group's loan portfolio, NPE management, liquidity, financial position as well as compliance issues.

2.2. Composition of the Management Body

As at 31 December 2019 the Board comprised of eleven (11) Directors: two executive Directors and nine (9) non-executives. 2019 has been a year of renewal for the Board with the nomination of eight new directors, one-executive and seven non-executives (three of the nominated Directors are pending approval by the CBC).

- On 26 February, 2019 Mr. Costas Poullis joined the Board.

- On 7 May, 2019 Mr. Avgoustinos Papathomas and Mr. Christodoulos Plastiras joined the Board.

- On 27 September, 2019 Ms. Stella Avraam joined the Board.

- On 10 March, 2020 Mr. Christodoulos Patsalides joined the Board and was appointed as the new Chairman of the Board in replacement of the Acting Chairman of the Group Mr. George Loizou who will continue as a non-executive independent Member.

Currently, the Board comprises of twelve Directors two executive and ten non-executive Directors.

The names and brief biographical details including each Director's background, experience and status are set out in section 4 below.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2.2. Composition of the Management Body (continued)

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, Supervisory Compliance and technological advancements.

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 Directive on the Assessment of the Fitness & Probity of the members of the management body and managers of authorized credit institutions ('CBC Fitness & Probity Directive').

2.2.1. Meetings of the Management Body

During 2019 the Board held 17 meetings. Directors are expected to attend every Board meeting. In 2019, attendance was strong both at scheduled and additional meetings (including those called at short notice). Details on the number of meetings of the Board and its committees and attendance of individual Directors are set out below. It should be noted that the Committees composition was revised on 1st June, 2019 and that the Technology Committee was abolished as of the same date.

	MB	Risk	Audit	NRC	Credit
Total Meetings – 2019	17	8	11	9	9
George Loizou	16	8	-	9	9
Neoclis Nicolaou	15	3		8	9
Andreas Loizou	14	1	9	-	6
Wahid Chammas*	11	-	-	-	1
Costas Poullis	14	-	9	7	-
George Pavlides	15	8	10	-	-
Melis Shiacolas	13	3	-	6	3
Avgoustinos Papathomas	10	-	8	4	6
Christodoulos Plastiras	9	5	8	-	6
Costas Argyrides	17	-	-	-	-
Stella Avraam	4	-	-	-	-

New appointments:

Mr. Costas Poullis appointed on 26.2.2019.

Mr. Avgoustinos Papathomas appointed on 7.5.2019

Mr. Christodoulos Plastiras appointed on 7.5.2019

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2.2.1. Meetings of the Management Body (continued)

Ms. Stella Avraam appointed on 27.9.2019

Mr. Wahid Chammas Temporary Recusal 7.05. – 16.7.2019

New Composition of Committees as of 1 June 2019

Messrs. Neoclis Nicolaou, Andreas Loizou and Menelaos Shiacolas resigned from Risk Committee on 31.5.2019.

Messrs. Menelaos Shiacolas and Wahid Chammas resigned from Credit Committee on 31.5.2019.

Following the appointment of three new directors on the Board, it was deemed appropriate to re-evaluate the composition of each Committee in order to ensure skills and experience of Members participating in a Committee is such that allows the Committee to operate effectively and provide an effective and broad level of challenge and oversight of the areas within its remit.

The decision was taken to abolish the Technology Committee and assign its responsibilities to the Audit and Risk Committees. In addition, a member with information technology background was appointed to the Board.

During the re-evaluation of the composition of each Committee the importance of cross -committee Membership was considered. The above table shows the number of cross-memberships of Non-Executive Directors across Board Committees as at 31.12.2019.

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 Company Secretary's responsibilities include facilitating the flow of information within the Board and its committees, between Senior Management and non-executive Directors and between Heads of internal control functions and non-executive Directors, as well as, facilitating the induction, development and evaluation of members of the Board.

All Directors have access to the advice and support of the Company Secretary. Independent advice is also available to the Directors at the Group's expense if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

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

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (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 terms of reference of the management body define the time commitment expectations for each role.

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 CBC Fitness and Probity Directive which incorporates the provisions on the management body of credit institutions in Article 91 of the European Capital Requirements Directive ('CRD IV'), determines that a Director cannot hold more than one of the following combinations:

- One executive directorship and two non-executive directorships;
- Four non-executive directorships.

Executive or non-executive directorships held within the same group, count as a single directorship. Directorships in organizations which do not pursue predominately commercial objectives do not count for the purpose of the above guidelines.

2.2.4. Group Chairman

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;
- 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;
- 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.

The Chairman commits a substantial amount of time to the Group. There were no changes to the other significant commitments of the Chairman during the year ended 31 December 2019. On 10 March, 2020 the Board elected Mr. Christodoulos Patsalides as its new Chairman, replacing Mr. George Loizou, who was appointed as Acting Chairman of the Board on 16 November, 2018.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2.2.5. Group CEO

The Group 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;
- 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.

2.3. 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 2019 the Board considered the principles relating to independence contained in the CBC Fitness and Probity 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.

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 ability of the candidate to devote sufficient time to the role 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2.3.1. Appointments to the Board (continued)

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.

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

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 Businesses and briefings with senior management. Dedicated training sessions also take place on particular issues usually identified by the Directors themselves and 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.

During 2019, comprehensive training sessions were conducted by external experts with the contribution of senior managers of the Group covering major existing and new regulations applicable to Banks. In addition, a modular training program on Governance was developed inhouse and was made available to Directors.

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.

The Directors also have access to the advice of the Group external legal advisors and to independent professional advice, at the Group's expense, if and when required. Board committees have similar access and are provided with sufficient resources to undertake their duties. The Directors also receive comprehensive guidance from the Company Secretary on Board procedures as well as guidance on duties and obligations.

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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2.3.3. 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 2019.

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;
- 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; and
- 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.

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;
- 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

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; and
- 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 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.

Based on the internal audit work carried out in 2019, significant steps have been made, which further strengthened the Group’s system of internal controls. In particular, progress was made in the NPE management and the arrears management process, areas which pose the most important risks for the Group.

Moreover, there is still room for improvement in certain areas within governance, the information systems and information security environment and compliance with new regulations such as MiFID II.

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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls (continued)

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports.

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.

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 victimisation, 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 Masters in Economics from London University.

Term of Office: Appointed to the Management Body on 10 March 2020

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Christodoulos Patsalides (continued)
Independent: Yes
Member of a Board Committee: None

Andreas Loizou
Born in 1964. He holds a BSc in Management Sciences from the University of Manchester Institute of Science & Technology. In 1991 he became member of the Institute of Chartered Accountants in England and Wales and subsequently a Fellow. He also holds a Certificate and a Diploma from the Institute of Directors (UK), and is a member of the Institute of Certified Public Accountants of Cyprus. He is the Medochemie Group Business Development Director. Additionally he is the Managing Director of the Dutch subsidiary company of Medochemie Ltd, FAL B.V. and as such he has the overall responsibility for the success of this Dutch factory.

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No

Member of a Board Committee:
- Chairman of the Audit Committee (until 8 May 2019 and member thereafter)
- Credit Committee

George A. Loizou
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 Management Body on 8 April 2015
Independent: Yes
Member of a Board Committee:
- Chairman of the Nominations and Remunerations Committee.
- Risk Committee
- Credit Committee
- Served as Chairman of the Board from 16 November 2018 to 10 March 2020

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

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 Management Body on 8 April 2015
Independent: No
Member of a Board Committee:
- Chairman of the Risk Committee
- Audit Committee

Menelaos Shiacolas
Born in 1971. He is a Barrister in Law and an experienced business professional. He serves as a director of a number of companies of the CNS Group (a Cyprus based group of companies with various sectors of activity in Cyprus) such as The Cyprus Trading Corporation Ltd, Ermes Department Store Ltd, F. W. Woolworth Ltd, Charalambides Christis, Cablenet Communication Systems Ltd, Cyprus Phassouri Plantations Group. He holds an LLB at Law from the University of Kent and an LLM Barrister at Law of Kings College, London.

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No
Member of a Board Committee:
- Nomination and Remuneration Committee

Neoclis Nicolaou (Vice Chairman)
Born in 1959. He is Specialist in Corporate and Investment Banking. He has extensive experience in investment Management, capital raising, project and investment financing, financial engineering, valuations and mergers and acquisitions. Extensive experience in corporate strategy work. Over the years he has made Investment Banking services available to a large number of local and overseas companies both private and public. He has also acted as an expert advisor on governmental projects. He acted as the lead manager on behalf of the Eurogate consortium which was successful in acquiring the concession for the Limassol Container Terminal. He has served as a non-executive director in a number of institutions including TFI Public Co. Ltd, The Argus Lamda Fund Ltd, The Argus Stockbrokers Ltd, IronFX Global Ltd, The Cyprus International Institute of Management, Global Capital Securities and Financial Services Ltd etc. Currently he is the Managing Director of Neoconsult Ltd. He holds a Bachelor in Econometrics from the Manchester University and an MBA from the Manchester Business School.

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No
Member of a Board Committee:
- Chairman of the Credit Committee
- Nominations and Remunerations Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Wahid Chammas
Born in 1975. He is an experienced investment management professional with over two decades of financial industry experience. He is the Founder and Chief Investment Officer of TyreGate Capital Holdings Ltd, a private equity business with over 40 owned companies. Previously, he was with Janus Capital Group for 11 years where he served as a Managing Director, Portfolio Manager and Head of the developed and emerging EMEA investment franchise and strategies, and where he established Janus' investment presence in Europe in 2008. He was recognized in Financial News (Dow Jones) as a Rising Star, 40 Under 40 in Asset Management, and has been highly rated on numerous occasions by Citywire. Prior to joining the Janus in January 2005, he spent eight years at Goldman, Sachs & Co., where he was a Vice President and sell-side Equity Securities Analyst, covering the media sector. He joined Goldman Sachs' Investment Research Division as a Vice President in 2002 from Goldman Sachs Asset Management, where he served as the Chief-of-Staff for the U.S. distribution group, supporting strategic planning and management activities across the asset management division. He received his Bachelor of Arts degree in Biology from Amherst College in 1997.

Term of Office: Appointed to the Management Body on 26 June 2018
Independent: No
Member of a Board Committee: None

Costas Poullis
Born in 1948. He holds a BSc in Economics from the University of London and an MSc in Agricultural Economics from the University of Newcastle Upon Tyne, UK. After a brief spell at the Statistics Department of the Ministry of Finance in Cyprus, he joined the Central Bank of Cyprus (CBC) in 1973. At the CBC he served in the International Division, the Economic Research Department and the Supervision and Regulation of Credit Institutions Division. He retired as a Senior Director in 2012.

Term of Office: Appointed to the Board of Directors on 26 February 2019
Independent: Yes
Member of a Board Committee:
- Audit Committee
- Nominations and Remunerations Committee

Avgoustinos Papathomas
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. Augoustinos 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 07 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 (appointed on 9 May 2019)
Member of a Board Committee:
- Chairman of the Audit Committee (from 8 May 2019)
- Nominations and Remunerations Committee
- Credit Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

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 07 May 2019
Independent: Yes
Member of a Board Committee:
- Audit Committee
- Risk Committee
- Credit Committee

4.2. Executive Directors

Costas Argyrides (Group CEO)
Born in 1967. He is an experienced Chief Executive Officer and financial services professional having served in various senior roles for over 20 years in financial institutions. He serves as Chief Executive Officer and Executive Director of Cyprus Development Bank PCL since July 15, 2017 and July 25, 2017. Previously, he served as Director of Wealth, Asset Management and Brokerage at Bank of Cyprus Public Company Limited since December 6, 2013. During the period 1993-2008, he was employed by the Cyprus Popular Bank where he served in various managerial positions including Group Treasurer, General Manager UK and Director Wealth Management. He studied Economics at Queen Mary College, University of London and then acquired an MSc in Shipping Trade & Finance from Cass Business School. He is also a member of the Chartered Institute for Securities and Investments.

Term of Office: Appointed to the Management Body on 25 July 2017
Independent: No
Member of a Board Committee: None

Stella Avraam (Executive Director – Group CFO)
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 Accountant 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 Management Body 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 N&RC 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.

5.1. Nominations and remunerations committee (NRC)

The NRC comprised five non-executive Directors at 31 December 2019, three of whom were independent (31 December 2018: three, one of whom was independent).

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

The Committee held 9 meetings in 2019. 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.
- 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

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

- 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 2019, the AC comprised of five non-executive Directors, three of whom, including the Chairman, were independent (31 December 2018: two). 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 2019. 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.

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 were 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5.2.1. Internal audit independence (continued)

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 2019 comprised three non-executive Directors, two of whom were independent (31 December 2018: three). Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 8 meetings in 2019. 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:

- 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.

MANAGEMENT REPORT (continued)

5.4. Credit Committee (CC)

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

The CC on 31 December 2019 comprised five non-executive Directors, of whom three were independent (31 December 2018: five). Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 9 meetings in 2019. 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, 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.

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 and incorporated 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 Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

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.

EVENTS AFTER THE REPORTING PERIOD

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

INDEPENDENT AUDITORS

The independent auditors, Messrs KPMG 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, 26 May 2020

KPMG

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED

Report on the audit of the consolidated financial statements and the 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 on pages 35 to 145 and comprise the consolidated and separate statement of financial position of the Bank as at 31 December 2019, 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 financial position of the Group and the Bank as at 31 December 2019, and of their financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap.113").

Basis for opinion

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

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

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

Provision for impairment of loans and advances	
Refer to note 18 (loans and advances) and to note 3.12 (significant accounting policies – impairment of financial assets) to the consolidated and separate financial statements.	
Key audit matter	**How the matter was addressed in our audit**
As at 31 December 2019, gross loans and advances to customers held at amortised cost amounted to €281 million (2018: €313) and the related impairment loss allowance amounted to €53 million (2018: €67). The key areas that required considerable judgement in our opinion and therefore greater level of audit focus regarding the estimation of IFRS 9 impairment loss allowance are: – Staging: Assess the significant deterioration of credit risk and classify loans in credit risk stages; – Macroeconomic scenarios to the ECL estimate: IFRS 9 requires the Bank to incorporate forward-looking information into estimating ECL. This involves judgement in determining the macroeconomic scenarios used and the weightings applied to them; – ECL estimate: The calculation of impairment allowance requires great judgment by the Management on the macroeconomic criteria to be used on the calculation of expected credit loss, which involves the determination of probability of default (PD), loss given default (LGD) and exposure at default (EAD).	Our audit procedures in this area included, among others: – Assessing on a sample basis the appropriateness of the assigned staging of the loans; – Assessing the appropriateness of the forecasts and macroeconomic variables used in the Bank's IFRS 9 model by comparing them to the relevant reports issued by external experts (Moody's); – Assessing, for a sample of collaterals, collateral values with reference to valuations performed by external valuators, property indices used and forecasted property indices; – Assessing the accuracy of the features presented by the Bank to supporting evidence (ie mortgage documents, valuation reports, loan agreements); – Performing credit assessment and impairment recalculation for a sample of loans exposures classified in stage 3, focusing on group of loans with different risk characteristics, assessing the adequacy of provision; – For stage 1 and stage 2 loans and advances to customers, with the support of our internal financial risk modelling specialists, we: • inspected the model documentation and methodology, and assessed whether the model methodology in consistent with the IFRS 9 requirements on ECL; • assessed the methodology and mathematical integrity used in the ECL model and tested key assumptions and inputs by performing procedures over the model components PD, LGD, EAD, SICR, Definition of default; • performed risk based substantive testing of the model by independently recalculating certain assumptions and comparing the calculated ECL to the Bank's ECL.

KPMG

As a result of these matters, we determined that impairment of loans and advances to customers is a key audit matter.	– Assessing whether the disclosures in the financial statements appropriately and adequately reflect the Bank's and the Groups exposure to credit risk and address the uncertainty which exists in determining expected credit losses.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and the Corporate Governance Statement, which is included as a specific section in the Management Report, but does not include the consolidated and separate financial statements and our auditors' 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, except as required by the Companies Law, Cap.113.

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.

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

Responsibilities of the Board of Directors and those charged with governance for the 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 IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Group and the Bank or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Report on other regulatory and legal requirements

Other regulatory requirements

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

Date of appointment and period of engagement

We were first appointed auditors on 1 June 1963 by the General Meeting of the Bank's members to audit the consolidated and separate financial statements for the year ended 31 December 1963. Our total uninterrupted period of engagement, having been renewed annually by shareholders' resolution is 57 years covering the periods ending 31 December 1963 to 31 December 2019.

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 presented to the Audit Committee of the Bank, which is dated 22 May 2020.

Provision of Non-audit Services ('NAS')

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

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

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap 113, and the information given is consistent with the consolidated and separate financial statements.
- In the light of the knowledge and understanding of the business and the Group's and the Bank's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated and separate financial statements.
- In light of the knowledge and understanding of the Group and 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 statement in relation to the information disclosed for items (iv) and (v) of the subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113. We have not identified material misstatements in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap.113.

KPMG

Other Matter

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

The engagement partner on the audit resulting in this independent auditors' report is Maria A. Papacosta.

Maria A. Papacosta, FCCA
Certified Public Accountant and Registered Auditor for and on behalf of

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

26 May 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
Continuing Operations			
Turnover		19.809	17.977
Interest income calculated using the effective interest method	4	12.919	13.555
Interest expense calculated using the effective interest method	5	(2.208)	(3.629)
Net interest income		10.711	9.926
Fee and commission income	6	3.555	3.229
Fee and commission expense	7	(399)	(334)
Net foreign exchange gains	8	760	849
Other income	9	2.575	344
Total net income		**17.202**	**14.014**
Staff costs	10	(7.066)	(6.773)
Other operating expenses	11	(3.662)	(3.374)
Depreciation	12	(1.050)	(730)
Profit before provisions for impairment		**5.424**	**3.137**
Provisions for impairment	12	(2.342)	(4.433)
Profit/(loss) after provisions for impairment		**3.082**	**(1.296)**
Transfer from reserves – foreign currency reserve on liquidation of Russian subsidiary	23	(2.920)	-
Profit/(loss) for the year before tax from continuing operations		162	(1.296)
Tax	13	(684)	(694)
Loss for the year after tax from continuing operations		**(522)**	**(1.990)**
Discontinued Operations			
Loss after tax from discontinued operations	14	(399)	(163)
Loss for the year		**(921)**	**(2.153)**
Loss for the year attributable to:			
Owners of the Bank – continuing operations		(541)	(1.980)
Owners of the Bank – discontinued operations		(399)	(163)
		(940)	(2.143)
Non-controlling interests		19	(10)
Loss for the year		**(921)**	**(2.153)**
Basic and fully diluted loss per share (cent)	15	(2,57)	(8,25)
Basic and diluted loss per share (cent) from continuing operations	15	(1,48)	(7,63)

The notes on pages 48 to 145 form an integral part of the financial statements.

INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
Turnover		19.236	17.655
Interest income calculated using the effective interest method	4	12.845	13.853
Interest expense calculated using the effective interest method	5	(2.202)	(3.626)
Net interest income		10.643	10.227
Fee and commission income	6	3.044	2.798
Fee and commission expense	7	(352)	(310)
Net foreign exchange gains	8	787	884
Other income	9	2.561	120
Total net income		**16.683**	**13.719**
Staff costs	10	(6.760)	(6.504)
Other operating expenses	11	(3.390)	(3.104)
Depreciation	12	(1.039)	(716)
Profit before provisions for impairment		**5.494**	**3.395**
Provisions for impairment	12	(2.473)	(4.516)
Profit/(loss) before tax		**3.021**	**(1.121)**
Tax	13	(739)	(673)
Profit/(loss) for the year after tax		**2.282**	**(1.794)**
Basic and fully diluted earnings/(loss) per share (cent)	15	6,23	(6,91)

The notes on pages 48 to 145 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
Loss for the year		**(921)**	**(2.153)**
Other comprehensive income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency reserve			
Exchange (losses)/gains arising on the retranslation of foreign subsidiary's financial statements		146	(200)
Exchange losses transferred to income statement upon liquidation of subsidiary		2.920	-
		3.066	(200)
Revaluation reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)		338	(134)
Transfer to the income statement on disposal		166	(106)
	20	504	(240)
Total OCI that are or may be reclassified in the consolidated income statement in subsequent periods		**3.570**	**(440)**
OCI items not to be reclassified in the income statement in subsequent periods			
Revaluation reserve (equity investments)			
Net gains on investments in equity instruments designated at FVOCI	19	716	18
		716	18
Property revaluation			
Gains from revaluation of premises		-	97
Tax		-	1
		-	98
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		**716**	**116**
Other comprehensive loss for the year net of taxation		**4.286**	**(324)**
Total comprehensive income/(loss) for the year		**3.365**	**(2.477)**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Bank - continuing operations		3.596	(2.107)
Owners of the Bank - discontinued operations		(253)	(362)
		3.343	(2.469)
Non-controlling interests		22	(8)
Total comprehensive income/(loss) for the year		**3.365**	**(2.477)**

The notes on pages 48 to 145 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
Profit/(loss) for the year		**2.282**	**(1.794)**
Other comprehensive income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve (debt instruments)			
Net gains/(losses) on investments in debt instruments measured at fair value through OCI (FVOCI)	20	321	(134)
Transfer to the income statement on disposal	20	170	(106)
Total OCI that are or may be reclassified in the income statement in subsequent periods		**491**	**(240)**
OCI items not to be reclassified in the income statement in subsequent periods			
Revaluation reserve (equity investments)			
Net gains on investments in equity instruments designated at FVOCI	19	707	2
Net losses from revaluation of subsidiaries		(130)	(504)
		577	(502)
Property revaluation			
Reversal of negative valuation (audit adjustment)		-	97
Tax		-	1
		-	98
Total OCI not to be reclassified in the income statement in subsequent periods		**577**	**(404)**
Other comprehensive income/(loss) for the year net of taxation		**1.068**	**(644)**
Total comprehensive income/(loss) for the year		**3.350**	**(2.438)**

The notes on pages 48 to 145 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
ASSETS			
Cash and balances with central banks	16	180.693	201.997
Balances with other banks	16	21.663	29.770
Derivatives	17	-	128
Loans and advances	18	227.698	246.449
Investments in equities	19	850	996
Investments in debt securities	20	95.851	79.622
Assets of subsidiary company under voluntary wind-up	23	-	4.026
Premises and equipment	24	6.979	6.456
Intangible assets	25	998	1.065
Receivables and other assets	26	20.902	16.628
Total assets		**555.634**	**587.137**
LIABILITIES			
Bank borrowings	27	3.592	4.013
Client deposits	28	496.298	515.990
Liabilities of subsidiary company under voluntary wind-up	23	-	27
Deferred taxation	29	350	329
Accruals and other liabilities	30	6.472	25.521
Total liabilities		506.712	545.880
Loan capital	32	5.000	5.000
EQUITY			
Share capital	33	8.655	35.164
Share premium		16.048	11.211
Capital reduction reserve		19.435	
Non-redeemable capital account		-	4.000
Reserves		(414)	(14.294)
Equity attributable to owners of the parent company		43.724	36.081
Non-controlling interests		198	176
Total equity		43.922	36.257
Total liabilities and equity		**555.634**	**587.137**
Contingent liabilities and commitments	34	77.347	74.867

These Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 26 May 2020.

Mr. Christodoulos Patsalides Chairman — **Mr. Costas Argyrides** Chief Executive Officer

Mr. Avgoustinos Papathomas Director — **Mrs. Stella Avraam** Chief Financial Officer

The notes on pages 48 to 145 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
ASSETS			
Cash and balances with central banks	16	180.693	201.997
Balances with other banks	16	21.383	29.634
Derivatives	17	-	128
Loans and advances	18	227.698	246.449
Investments in equities	19	850	673
Investments in debt securities	20	95.601	79.622
Subsidiary company under voluntary wind-up	22	-	3.999
Investments in subsidiary companies	21	19.598	15.214
Premises and equipment	24	6.974	6.445
Intangible assets	25	978	1.055
Receivables and other assets	26	1.349	1.404
Total assets		**555.124**	**586.620**
LIABILITIES			
Bank borrowings	27	3.592	4.013
Client deposits	28	496.298	515.990
Deferred taxation	29	350	329
Accruals and other liabilities	30	6.140	25.194
Total liabilities		506.380	545.526
Loan capital	32	5.000	5.000
EQUITY			
Share capital	33	8.655	35.164
Share premium		16.048	11.211
Capital reduction reserve		19.435	
Non-redeemable capital account		-	4.000
Reserves		(394)	(14.281)
Total equity		43.744	36.094
Total liabilities and equity		**555.124**	**586.620**
Contingent liabilities and commitments	34	77.347	74.867

These Financial Statements have been approved and authorised for issue by the Management Body on 26 May 2020.

Mr. Christodoulos Patsalides Chairman

Mr. Costas Argyrides Chief Executive Officer

Mr. Avgoustinos Papathomas Director

Mrs. Stella Avraam Chief Financial Officer

The notes on pages 48 to 145 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

2019	Attributable to the parent company's owners										
	Share capital €'000	Share premium €'000	Capital reduction reserve fund €'000	Non-redeemable capital account €'000	Non distributable reserve €'000	Revaluation reserve €'000	Foreign currency reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2019	35.164	11.211		4.000	90	1.784	(3.026)	(13.142)	36.081	176	36.257
Total comprehensive income/(loss) after taxation											
Loss for the year	-	-	-	-	-	-	-	(940)	(940)	19	(921)
Other comprehensive income/(loss)	-	-	-	-	-	1.289	3.026	(32)	4.283	3	4.286
Total comprehensive income/(loss)	-	-	-	-	-	1.289	3.026	(972)	3.343	22	3.365
Transfers between reserves											
Excess depreciation on revaluation surplus	-	-	-	-	-	17	-	(17)	-	-	-
Net gains on equity investments disposed	-	-	-	-	-	(334)	-	334	-	-	-
JSC cdbbank reserves upon completion of voluntary wind-up	-	-	-	-	(90)	-	-	90	-	-	-
Total transfers between reserves	-	-	-	-	(90)	(317)	-	407	-	-	-
Transactions with owners of the Bank – contributions and distributions											
Capital increase	2.606	1.694	-	-	-	-	-	-	4.300	-	4.300
Capital reductions towards negative reserves and capital reduction reserve	(29.972)	-	19.435	-	-	-	-	10.537	-	-	-
Conversion of non-redeemable capital account into ordinary share capital	857	3.143	-	(4.000)	-	-	-	-	-	-	-
Total contributions and distributions	**(26.509)**	**4.837**	**19.435**	**(4.000)**	**-**	**-**	**-**	**10.537**	**4.300**	**-**	**4.300**
Balance 31 December 2019	**8.655**	**16.048**	**19.435**	**-**	**-**	**2.756**	**-**	**(3.170)**	**43.724**	**198**	**43.922**

The notes on pages 48 to 145 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Share capital

On 12 March 2019 an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. Details of the share capital increase are set out in note 33 to the financial statements.

Capital reduction reserve fund

At the EGM of the Bank's shareholders dated 12 March 2019, a resolution was proposed and approved for the reduction of the issued share capital of the Bank from €35.164 thousand to €5.192 thousand. The amount of €29.972 thousand corresponding to the reduction of the Company's issued share capital was applied for writing off accumulated losses of the Bank and the remaining amount was transferred to a capital reduction reserve fund account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there was a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

On 24 September 2019, with a special resolution of the shareholders of the Bank, the non-redeemable capital account of €4 million was converted into ordinary share capital through the issue and allotment of 4.284.322 ordinary shares with a nominal value of €0,20 each to four of the Bank's existing shareholders at a total price of €4 million (€0,9336 per ordinary share).

Non-distributable reserve

The non-distributable reserve comprises of amounts transferred from revenue reserve by the foreign subsidiary, JSC cdbbank, to cover possible future losses in accordance with Russian legislation. On completion of the voluntary wind-up of JSC cdbbank the reserve was transferred to revenue reserve.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is non distributable.

Foreign currency reserve

This reserve relates to exchange differences on the Russian subsidiary. The outstanding balance was transferred to the Income Statement on the completion of the voluntary winding-up completed in September 2019.

The notes on pages 48 to 145 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the parent company's owners									
2018	Share capital €'000	Share premium €'000	Non-redeemable capital account €'000	Non distributable reserve €'000	Revaluation reserve €'000	Foreign currency reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2018	35.164	11.211	4.000	90	1.990	(2.826)	(7.563)	42.066	184	42.250
Adjustment on initial application of IFRS 9 (note 4)	-		-	-	-	-	(3.516)	(3.516)	-	(3.516)
Restated balance 1 January 2018	35.164	11.211	4.000	90	1.990	(2.826)	(11.079)	38.550	184	38.734
Total comprehensive income/(loss) after taxation										
Loss for the year	-	-	-	-	-	-	(2.143)	(2.143)	(10)	(2.153)
Other comprehensive income	-	-	-	-	(223)	(200)	97	(326)	2	(324)
Total comprehensive income	-	-	-	-	(223)	(200)	(2.046)	(2.469)	(8)	(2.477)
Transfer of excess depreciation on revaluation surplus	-	-	-	-	17	-	(17)	-	-	-
Balance 31 December 2018	**35.164**	**11.211**	**4.000**	**90**	**1.784**	**(3.026)**	**(13.142)**	**36.081**	**176**	**36.257**

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

Non-distributable reserve

The non-distributable reserve comprises of amounts transferred from revenue reserve by the foreign subsidiary to cover possible future losses in accordance with Russian legislation.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 48 to 145 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

2019	Share capital €'000	Share premium €'000	Capital reduction reserve fund €'000	Non-redeemable capital account €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2019	35.164	11.211	-	4.000	(3.745)	(10.536)	36.094
Total comprehensive income/(loss) after taxation							
Profit for the year	-	-	-	-		2.282	2.282
Other comprehensive income	-	-	-	-	1.068	-	1.068
Total comprehensive income	-	-	-	-	1.068	2.282	3.350
Transfers between reserves							
Revaluation reserve on Russian subsidiary					4.458	(4.458)	-
Excess depreciation on revaluation surplus	-	-	-	-	17	(17)	-
Net gains on equity investments disposed	-	-	-	-	(206)	206	-
Total transfers between reserves	-	-	-	-	4.269	(4.269)	-
Transactions with owners of the Bank – contributions and distributions							
Capital increase	2.606	1.694	-	-	-		4.300
Capital reductions towards negative reserves and capital reduction reserve	(29.972)	-	19.435	-	-	10.537	-
Conversion of non-redeemable capital account into ordinary share capital	857	3.143	-	(4.000)	-	-	-
Total contributions and distributions	(26.509)	4.837	19.435	(4.000)	-	10.537	4.300
Balance 31 December 2019	**8.655**	**16.048**	**19.435**	**-**	**1.592**	**(1.986)**	**43.744**
2018							
Balance 1 January 2018	35.164	11.211	-	4.000	(3.021)	(5.306)	42.048
Adjustment on initial application of IFRS 9	-	-	-	-	-	(3.516)	(3.516)
Restated balance 1 January 2018	35.164	11.211	-	4.000	(3.021)	(8.822)	38.532
Total comprehensive income/(loss) after taxation							
Loss for the year	-	-	-	-	-	(1.794)	(1.794)
Other comprehensive income	-	-	-	-	(741)	97	(644)
Total comprehensive income	-	-	-	-	(741)	(1.697)	(2.438)
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	-	17	(17)	-
Balance 31 December 2018	**35.164**	**11.211**	**-**	**4.000**	**(3.745)**	**(10.536)**	**36.094**

The notes on pages 48 to 145 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Share capital

On 12 March 2019 an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. Details of the share capital increase are set out in note 33 to the financial statements.

Capital reduction reserve fund

At the EGM of the Bank's shareholders dated 12 March 2019, a resolution was proposed and approved for the reduction of the issued share capital of the Bank from €35.164 thousand to €5.192 thousand. The amount of €29.972 thousand corresponding to the reduction of the Company's issued share capital was applied for writing off accumulated losses of the Bank and the remaining amount was transferred to a capital reduction reserve fund account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there was a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

On 24 September 2019, with a special resolution of the shareholders of the Bank, the non-redeemable capital account of €4 million was converted into ordinary share capital through the issue and allotment of 4.284.322 ordinary shares with a nominal value of €0,20 each to four of the Bank's existing shareholders at a total price of €4 million (€0,9336 per ordinary share).

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 48 to 145 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group profit/(loss) for the year from continuing operations		(522)	(1.990)
Group loss for the year from discontinued operations		(399)	(163)
Adjustments for:			
Interest from debt securities	4	(960)	(855)
Loss on disposal of premises and equipment	12	6	-
Depreciation of premises and equipment	12	659	447
Depreciation of intangible assets	12	391	283
Net foreign exchange gains		(760)	(849)
Impairment losses and provisions to cover credit risk	12	2.342	4.433
Interest expense on lease liability	5	29	-
Foreign currency reserve on Russian subsidiary		2.920	-
Tax	13	684	694
		4.390	2.000
Change in:			
Obligatory balances with Central Bank		113	(455)
Placements with other banks		823	(44)
Loans and advances		12.219	(676)
Client deposits		(19.692)	35.352
Bank borrowings		(421)	2.012
Working capital and other items of the statement of financial position		(17.019)	4.365
Net cash from operating activities before tax		(19.587)	42.554
Taxes and special contributions paid		(719)	(683)
Net cash from operating activities		(20.306)	41.871
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	24	(128)	(281)
Acquisition of intangible assets	25	(324)	(732)
Proceeds from disposal of equity investments		901	
Acquisition of debt securities		(188.202)	(111.159)
Proceeds on disposal/redemption of debt securities		171.361	81.971
Interest from debt securities	4	960	855
Proceeds from subsidiary company under voluntary wind up		3.748	-
Net cash used in investing activities		(11.684)	(29.346)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		4.300	-
Principal element of lease payments		(205)	-
Net cash to financing activities		4.095	-
Net (decrease)/increase in cash and cash equivalents		(27.895)	12.525
Effect of exchange rate fluctuations on cash and cash equivalents		(579)	2.477
Cash and cash equivalents at the beginning of the year		225.887	210.885
Cash and cash equivalents at the end of the year	36	197.413	225.887
Non-cash investing activities			
Reduction of issued share capital utilised to write off accumulated losses	33	10.537	-
Reduction of issued share capital through Capital reduction reserve fund account	33	19.435	-
Conversion of non-redeemable capital account into ordinary share capital	33	4.000	-
		33.972	-

The notes on pages 48 to 145 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 €'000	2018 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		2.282	(1.794)
Adjustments for:			
Interest from debt securities	4	(958)	(855)
Loss on disposal of premises and equipment	12	1	-
Depreciation of premises and equipment	12	655	433
Depreciation of intangible assets	12	384	283
Net foreign exchange gains		(787)	(884)
Impairment losses and provisions to cover credit risk	12	2.473	4.516
Interest expense on lease liability	5	29	-
Tax	13	739	673
		4.818	2.372
Change in:			
Obligatory balances with Central Bank		113	(455)
Placements with other banks		823	(44)
Loans and advances		12.219	(676)
Client deposits		(19.692)	35.352
Bank borrowings		(421)	2.012
(Decrease)/increase in working capital and other items of the statement of financial position		(17.470)	3.920
Net cash from operating activities before tax		(19.610)	42.481
Taxes and special contributions paid		(718)	(661)
Net cash from operating activities		(20.328)	41.820
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	24	(126)	(280)
Acquisition of intangible assets	25	(307)	(722)
Proceeds from disposal of equity investments		530	-
Acquisition of debt securities		(187.970)	(111.159)
Proceeds on disposal/redemption of debt securities		171.361	81.971
Interest from debt securities	4	958	855
Proceeds from subsidiary company under voluntary wind up		3.748	-
Net cash to investing activities		(11.806)	(29.335)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from the issue of share capital		4.300	
Principal element of lease payments		(205)	-
Net cash to financing activities		4.095	-
Net (decrease)/increase in cash and cash equivalents		(28.039)	12.485
Effect of exchange rate fluctuations on cash and cash equivalents		(580)	2.477
Cash and cash equivalents at the beginning of the year		225.752	210.790
Cash and cash equivalents at the end of the year	36	197.133	225.752
Non-cash investing activities			
Reduction of issued share capital utilised to write off accumulated losses	33	10.537	-
Reduction of issued share capital through Capital reduction reserve fund account	33	19.435	-
Conversion of non-redeemable capital account into ordinary share capital	33	4.000	-
		33.972	-

The notes on pages 48 to 145 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 ultimate 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 Russian subsidiary company, Joint Stock Company cdbbank, whose principal activities involved the provision of commercial banking operations was under voluntary wind up from October 2019 when an application for cancellation of its Banking license and its voluntary liquidation was submitted to the Central bank of Russian Federation. The winding up of the Russian subsidiary was successfully completed by September 2019 when JSC cdbbank was removed from the register of companies in Russia. Details are set out in Notes 22 and 23 to financial statements.

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 12 months from the date of approval of these financial statements. The conditions that existed during 2019, the developments up to the date of approval of these financial statements and Management's projections have been considered by the Directors in the going concern assessment 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 Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the financial performance of the Group, the risks emanating from the economic environment and the risks that arise to the economy from the unprecedented conditions emanating from the COVID-19 pandemic and consider that the going concern principle is appropriate.

2.1.1 Funding and liquidity

The Group enjoys a strong liquidity position and is compliant with all the regulatory liquidity ratios. The LCR ratio stood at 304% at 31 December 2019 and is well above the minimum requirement of 100%. Based on the projections of the Management of the Group, it is expected that the Group will continue to maintain a strong liquidity position and will be compliant with minimum regulatory requirements throughout the period of assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.2 Capital

The minimum Pillar I total capital requirement is 8,0% which should be met by at least 6,0% Tier 1 capital (T1) 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 under Pillar I capital requirements. In February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, the Central Bank of Cyprus determined the additional capital requirements to be met by CET 1 capital to be 5,2% of the Group's risk weighted assets. In addition to the total SREP capital requirements, the Group is also required to maintain a capital conservation buffer of 2,5%. Based on the above, for 2019 the Group was required to maintain on a consolidated basis a minimum CET 1 ratio of 12,20% and an overall capital ratio (OCR) of 15,70%.

The Group's overall capital ratio as at 31 December 2019 stood at 17,07% and was above the minimum capital requirement of 15,70% by 137 basis points. 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.

During 2019, the Group implemented successfully its Financial and Capital Plan the main objectives of which were to enhance the capital adequacy through both a rights issue as well as management actions, to ensure that the Group has sufficient resources and capital to support its current activities as follows:

- Intensified efforts to de-risk its balance sheet and successfully resolved NPE cases that contributed towards the improvement of the Group's capital position by both reducing RWA and enhancing its capital base.
- On 12 March 2019 an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3m was approved.
- The Bank completed successfully the capital raise. On 22 March 2019 existing shareholders subscribed to an amount of €3,3m while the remaining €1m was committed and subscribed through a private placement by a local institutional investor on 12 June 2019.
- Completed the voluntary wind up of JSC Cdbbank and proceeded with the repatriation of €1,2m capital and €2,5m subordinated loan.
- On 24 September 2019, in an effort to further strengthen the Capital Position of the Bank, an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, where it was resolved to convert the non-redeemable capital account of €4 million to share capital through the issue and allotment of a total of 4.284.322 shares with a nominal value of €0,20 each at €0,9336 per share to a group of existing shareholders.

In addition to the capital raise, the Group's capital base was further strengthened by €3,3 million through organic growth coming from internally generated profitability of €2,0 million (before the transfer of the foreign exchange reserve to the Income Statement) and positive valuation differences of €1,3 million reported through Other Comprehensive Income.

At the same time, the Bank's RWA exhibited a reduction which can be attributed mainly to the following:

- NPE workouts and REO disposals;
- Liquidity optimisation;
- Restricted new lending;
- Completion of JSC Cdbbank voluntary wind-up.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.3 Financial Performance

The Group despite the contraction of its loan portfolio and the restricted lending, imposed by the Capital Plan, closed the year profitably achieving a profit of €3,1 million before tax and €2,4 million after tax from continuing operations. After losses of €0,4 million from discontinued operations, relating to the Russian subsidiary JSC cdbbank, the Group reported after tax profits of €2,0 million compared to losses of €2,2 million reported in 2018. *(Figures mentioned exclude the amount of €2,9 million foreign currency reserve transferred from reserves to income statement upon completion of the winding-up of JSC cdbbank).*

2.1.4 Non-performing exposures (NPEs)

NPEs decreased by a net amount of €18 million (10%) during the year from €125 million at 31 December 2018 to €107 million at 31 December 2019, with the NPE ratio improving from 40% to 38%. The NPE coverage ratio decreased from 50% at 31 December 2018 to 47% at 31 December 2019, mainly due to the write off of fully provided loans.

2.1.5 COVID-19 outbreak

The Directors have considered the COVID-19 outbreak and the uncertainties and disruption created, and closely monitor the situation as it unfolds. The COVID-19 outbreak has caused so far, a massive shock to the global economy and is having a pronounced effect on the ability of people to work. Given the trend and pace of developments globally, and particularly in the Eurozone, the severity and longevity of the outbreak are still unknown and therefore no reliable estimate of the impact can be made at this stage, although, the IMF as well as rating agencies, have revised down their projections for the growth of the European and World economies in 2020/2021.

The Group's activities, financial performance and position will depend on the length and severity of the disruption caused by the pandemic. As the situation has arisen after the Group completed its 3-year business plan and projections for 2020-2022, additional work has been undertaken to examine the potential impact. This included the development of adverse scenarios which are extreme yet plausible and take into consideration the negative impact on the credit quality and collateral values.

The impact of the COVID-19 pandemic on the economy is unprecedented and calls for ongoing monitoring to ensure proper understanding of the situation and sound-decision making. As early as February 2020, Management ensured that the Business Continuity Plan (BCP) was enhanced to warrant that should the need arise, the Bank could operate its critical services remotely by enabling most of its staff to work securely from home. Despite the heightened volatility and uncertainties as a result of the COVID-19 outbreak and the uncertainties associated with the outcome of future actions and events outlined in the Bank's Business Plan, at the reporting date, the Directors believe that within the period of assessment the Group will be in a position to:

- ✓ Meet its minimum regulatory requirements;
- ✓ Maintain a strong deposit base and healthy liquidity to support its operations;
- ✓ Expand its loan portfolio through new lending;
- ✓ Improve the quality of its loan portfolio, targeting an NPE ratio below 30% by end of 2020; and
- ✓ Improve financial performance and maintain and improve operating profitability.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

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 2019.

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 properties 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 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16: Leases

On 1 January 2019, the Group adopted IFRS 16 Leases, which has been endorsed by EU. IFRS 16 replaced IAS 17 Leases.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented in 2018 is not restated and it is presented as previously reported under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

On transition to IFRS 16, the Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease under IFRS 16.

As a lessee, the Group leases some branch office premises and IT equipment. The Group classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

Furthermore, the Group has not entered into any new leases during the year ended 31 December 2019, other than leases of low-value IT equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.4 New and amended standards and interpretations (continued)

IFRS 16: Leases (continued)

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Groups' incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the end of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on transition to IFRS 16

The implementation of IFRS 16 led to the recognition of the right-of-use assets at an equal amount as lease liabilities and restoration of liability with no effect on equity or retained earnings of the Group as at 1 January 2019.

The table below shows the impact on initial implementation of IFRS 16:

	1 January 2019
	€'000
Assets	
Right-of-use assets (disclosed in "Premises and equipment")	1.060
Liabilities	
Lease liabilities (disclosed in "Accrued expenses and other liabilities")	1.060

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied was 3,2%.

Reconciliation of balance sheet amounts from IAS 17 to IFRS 16

The lease liabilities as at 1 January 2019 are reconciled to the operating lease commitments as disclosed in the consolidated financial statement for the year ended 31 December 2018 as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.4 New and amended standards and interpretations (continued)

IFRS 16: Leases (continued)

Reconciliation of balance sheet amounts from IAS 17 to IFRS 19 (continued)

	1 January 2019
Operating lease commitments as at 31 December 2018 (non-cancellable) as disclosed under IAS 17 in the Group's consolidated financial statements	650
Discounted using the incremental borrowing rate as at 1 January 2019	636
Adjustment as a result of different treatment of optional extension periods for cancellable leases	424
Lease liabilities as at 1 January 2019	**1.060**

IFRS 9: Prepayment features with negative compensation (amendment)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortised cost or at FVOCI. The amendment did not have an impact on the results and financial position of the Group.

IAS 28: Long-term Interest in Associates and Joint Venture (amendment)

The amendments clarify that an entity applies IFRS 9 "Financial Instruments", including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. More specifically, it clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The interpretation did not have an impact on the results and financial position of the Group.

IAS 19: Plan Amendment, Curtailment or Settlement (amendment)

In February 2018, the IASB issued amendments to the guidance in IAS 19 "Employee Benefits", in connection with accounting for planned amendments, curtailments and settlements. The amendment did not have an impact on the results and financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.4 New and amended standards and interpretations (continued)

Annual Improvements to IFRSs 2015-2017 Cycle

The IASCB has issued the Annual Improvements to IRFSs 2015-2017 Cycle, which is a collection of amendments to IFRSs. The improvements did not have an impact on the results and financial position of the Group.

- IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

- IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

- IFRS 11 "Joint Arrangements": the amendments clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

2.5 Standards and interpretations that are issued but not yet effective

2.5.1 Standards and interpretations adopted by the EU

Conceptual Framework in IFRS standards

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group does not expect this framework to have a material impact on its results and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

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

2.5.1 Standards and interpretations adopted by the EU (continued)

IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. They clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group does not expect these amendments to have a material impact on its results and financial position.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform

Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency.

The IFRS amendments include several temporary reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform by allowing entities to assume the benchmark interest rate is not altered as a result of IBOR reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments mandatorily take effect from 1 January 2020, but early application is permitted. The amendments were endorsed by the EU in January 2020. The Group does not apply hedge accounting and has elected not to early adopt the interest rate benchmark reform amendments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

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

2.5.2 Standards and Interpretations not adopted by the EU

IFRS 3: Business Combinations (amendments)

The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business. The Group does not expect these amendments to have a material impact on its results and financial position.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Group does not expect these amendments to have a material impact on its results and financial position.

Amendments to IAS 1 Presentation of Financial Statements

The IASB issued amendments to IAS 1 Presentation of Financial Statements 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 (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 or 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.6 Fair value of financial assets and liabilities

The Group and the Bank have applied the new definition of fair value as set out in note 36. The change had no significant impact on the measurements of the Group's and the Bank's assets and liabilities, but the Group and the Bank have included new 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 of the Bank are for the year ended 31 December 2019 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus. The functional currency of the foreign subsidiary held for sale is Russian Roubles.

2.8 Basis of Consolidation

The consolidated Financial Statements comprise the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2019. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, 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. Generally, there is a presumption that a majority of voting rights results in control.

Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the Consolidated Financial Statements from the date of acquisition or up to the date of disposal, respectively. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The non-controlling interests are presented separately in the consolidated income statement and within equity from the Company owners' equity.

All intra-group balances and transactions are eliminated on consolidation.

In preparing these consolidated financial statements, Management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies 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 of preparing these financial statements. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.9 Use of estimates and judgments

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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.

The accounting policies that are deemed critical to the Group's results and financial position and which involve significant estimates and judgements are set out below:

2.9.1 Classification of financial assets

The Group exercises judgement upon determining the classification of its financial assets, 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. In general, the assessment for the classification of financial assets into the business models is performed at the level of each business line. Furthermore, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rate could significantly affect future cash flows. Furthermore, judgement is required when assessing whether compensation paid or received on early termination of lending arrangements results in cash flows that are not SPPI.

2.9.2 Calculation of expected credit losses

The calculation of ECL requires management to apply significant judgement and make estimates and assumptions, involving significant uncertainty at the time these are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies.

Elements of ECL models that are considered accounting judgements and estimates include:

Assessment of significant increase of credit risk
IFRS 9 does not include a definition of significant increase in credit risk. The Group assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The relevant criteria are set, monitored and updated by the Risk Management department and endorsed by the Provisions Committee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.9 Use of estimates and judgments (continued)

2.9.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors

The Group determines the ECL, which is a probability-weighted amount, by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. The Group uses three different economic scenarios. Details about forward-looking inputs are provided in note 3.12.

Stage 3 exposures are individually assessed. The calculation of individually assessed provisions is the weighted average of three scenarios: baseline, optimistic and pessimistic. The three scenarios focus on the following variables, which are based on the specific facts and circumstances of each customer and for each variable different assumptions are used under each scenario: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral.

Stage 1 and 2 exposures are collectively assessed. The calculation is the weighted average of three scenarios: baseline, optimistic and pessimistic. Stage 1 and Stage 2 customers with exposures over a pre-defined threshold are individually assessed to ascertain staging classification.

Assessment of loss given default

A factor for the estimation of loss given default (LGD) is the timing and 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 values.

At 31 December 2019 the weighted average haircut (including liquidity haircut and selling expenses) used for the impairment assessment regarding property collaterals for loans and advances to customers is c.16% under the baseline scenario.

The timing of recovery from real estate collaterals used in the provisions calculation for loans and advances to customers has been estimated to be on average three and a half years under the baseline scenario.

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.

ECL allowances also include off-balance sheet credit exposures represented by guarantees given and by commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the probability, timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated using the Credit Conversion Factor (CCF) model.

Further details on impairment of financial assets are set out in note 3.12.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. BASIS OF PREPARATION (continued)

2.9 Use of estimates and judgments (continued)

2.9.3 Stock of property – estimation of net realisable value

Stock of properties is measured at the lower of cost and net realisable value. The estimated sales price is determined with reference to the fair value of properties. The best evidence of fair value is a quoted price in an active market. When the market is not active the fair value is established through valuations carried out by independent qualified valuers who apply internationally accepted valuation models, use their market knowledge and professional judgement. This exercise, depending on the nature of the underlying asset and available market information involves a degree of uncertainty. The determination of costs to sell may also require professional judgement which involves a degree of uncertainly.

2.9.4 Fair values

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and so 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.

The Group uses models with unobservable inputs for the valuation of unquoted equity investments. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further details on the fair value of assets and liabilities are disclosed in note 35.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 Company, 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.

The income statement of the foreign subsidiary company is translated into Euro using the mid-rate of exchange of the year. The assets and liabilities of the foreign subsidiary are translated into Euro at the rate of exchange ruling at the end of the year. The exchange difference arising from the above is dealt with directly in exchange difference reserves.

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, 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.

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 2019

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 accrual 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) from 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 contributions plan for its permanent employees. This plan provides for employer contributions of 9% (2018: 9%) 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 and the Russian Federation, where the Group carries on operations. Corporation tax in Cyprus is calculated at the rate of 12,5%. Corporation tax in the Russian Federation is calculated at the rate of 20%. 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 2019

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii. Measurement categories (continued)

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.

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 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

iv. Modified financial assets (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

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss' (ECL) model. Under the new forward-looking approach, the estimation of ECL requires more judgement, estimates, and assumptions in considering information for current as well as future events and conditions.

The new impairment model applies to financial assets that are not measured at FVTPL including 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 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Upon initial recognition of instruments in scope of the new 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.

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:

- Previous arrears over 30 days within the last 12 months.
- Actual or expected forbearance measures, as per the EBA definition.
- Individual assessment of significant increase in credit risk for significant exposures to ensure that the following indicators are taken into consideration:
  - ✓ Actual or expected significant change in operating results of the borrower;
  - ✓ Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
  - ✓ Significant change in collateral value which is expected to increase risk of default;
  - ✓ Early warning signs of cashflow/liquidity problems such as delay in servicing trade creditors.

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 2019

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 and European Central Bank's (ECB) Guidance to Banks on NPE of March 2017, 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 extended additional forbearance measures.
- Performing forborne exposures under probation 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 2019

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 at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

ECL Key inputs (continued)

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 and realisation of collateral. 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% for the baseline scenario and 25% for the pessimistic and optimistic scenarios, respectively.

The table below shows the macroeconomic variables for each scenario and the respective scenario weights:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Forward looking inputs (continued)

Cyprus Economy – Macroeconomic Parameters

Scenarios			2020	2021	2022	Probability weight %
	Real GDP change	%	3,82	4,18	4,67	
Optimistic	Unemployment rate	%	6,20	5,75	5,57	25%
	House Price index change	%	3,82	4,18	4,67	
	Real GDP change	%	2,69	2,19	2,10	
Baseline	Unemployment rate	%	6,71	6,23	6,03	50%
	House Price index change	%	2,25	3,50	4,58	
	Real GDP change	%	-4,72	-1,70	2,81	
Pessimistic	Unemployment rate	%	10,46	11,73	11,06	25%
	House Price index change	%	-1,89	0,20	2,98	

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”.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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3.16 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.

3.17 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Intangible assets

Intangible assets include computer software and goodwill.

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.

3.20 Stock of properties

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.

Stock of properties is recognised in the statement of financial position and is included under "receivables and other assets", 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 properties is 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 properties held for sale, 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.

3.21 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.

3.22 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.

3.23 Share capital

The Bank's own shares are stated as equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Derivatives

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

Derivatives are initially recorded at cost 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.

3.25 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.

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.

3.26 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 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.

3.28 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 classifies as held-for-sale the Russian subsidiary JSC cdbbank under voluntary wind-up.

3.29 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 2019

4. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Loans and advances at amortised cost	11.377	11.974	11.305	12.273
Balances with banks at amortised cost	582	726	582	725
Debt securities at FVOCI	960	855	958	855
	12.919	13.555	12.845	13.853

Interest from loans and advances includes interest on net carrying amount of impaired loans and advances amounting to €695 thousand (31 December 2018: €1.957 thousand).

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.

5. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Bank borrowings	22	13	22	13
Client deposits	1.314	3.103	1.314	3.103
Balances with banks	843	513	837	510
Interest expense on lease liability	29	-	29	-
	2.208	3.629	2.202	3.626

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

6. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Credit related fees and commissions	680	717	680	717
Fund transfer commissions	1.415	1.042	1.415	1.042
Other banking fees and commissions	1.460	1.470	949	1.039
	3.555	3.229	3.044	2.798

7. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	352	310	352	310
Brokerage fees and commissions	47	24	-	-
	399	334	352	310

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

8. 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, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluations of foreign exchange derivatives.

9. OTHER INCOME

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Profit from disposal of stock of property	1.500	-	1.500	-
Profit from disposal of debt securities at FVOCI	1.044	54	1.037	54
Other income	31	290	24	66
	2.575	344	2.561	120

10. STAFF COSTS

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Salaries	5.634	5.455	5.337	5.193
Employer's contributions	807	656	801	649
Other staff benefits	21	11	21	11
Cost of retirement benefits	434	421	431	421
Termination benefits	170	230	170	230
	7.066	6.773	6.760	6.504

The number of persons employed by the Group as at 31 December 2019 was 143 (31 December 2018: 153) and by the Bank 134 (31 December 2018: 134).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2018: 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 7% and employee contributions 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 2019

11. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Consultancy and legal fees	866	333	856	314
Regulatory fees	330	310	298	310
Rental of premises[1]	-	288	-	286
Repairs and maintenance	747	670	746	654
Marketing, subscriptions and donations	390	305	362	305
Utilities	275	290	265	276
Other operating expenses	1.054	1.178	863	959
	3.662	3.374	3.390	3.104

[1] As a result of IFRS 16, rental expenses of premises have decreased and have been replaced by depreciation on premises (being the right-of-use asset) and interest expense (on the lease liability).

12. PROFIT/(LOSS) BEFORE TAX

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

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees (note 41)	202	207	202	207
Expenses	7	3	7	3
Independent auditors' remuneration:				
Audit of annual accounts	103	94	70	71
Audit fees previous years	15	8	5	8
Other non-audit services	61	71	61	71
Other assurance services	35	-	35	-
Loss on disposal/write off of equipment	6	-	1	-
Depreciation on:				
Premises and equipment	659	447	655	433
Computer software	391	283	384	283
Provisions for impairment:				
Loans and advances	2.468	4.506	2.596	4.506
Receivables and other assets	3	47	3	27
Financial guarantees and commitments (note 30)	40	(82)	40	(82)
Pending litigations (note 30)	(60)	(60)	(60)	(60)
Debt securities at FVOCI (note 20)	(71)	22	(71)	22
Balances with Group companies	-	-	3	103
Cash and cash equivalents	(38)	-	(38)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. TAXATION

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Corporation tax	-	20	-	-
Deferred tax (note 29)	(35)	11	21	12
Special contribution to the defence fund	1	2	-	-
Special levy on client deposits	718	661	718	661
	684	694	739	673

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 special levy on client deposits for 2019 amounted to €718 thousand (2018: €661 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 2019 special tax on client deposits is net of €64 thousand (2018: €70 thousand) relating to the contribution of the Bank to the Single Resolution Fund.

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

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Accounting profit/(loss) before tax	162	(1.296)	3.021	(1.121)
Corporation tax on the profit/(loss) for the year at the rates applicable in Cyprus	20	(162)	378	(140)
Tax effect of:				
Expenses not deductible for tax purposes	517	107	152	93
Allowances and income not subject to tax	(233)	(347)	(233)	(340)
Different foreign tax rates	-	7	-	-
Effect of tax losses brought forward	(304)	-	(297)	-
Loss for the year	-	415	-	387
Corporation tax	-	20	-	-
Deferred tax	(35)	11	21	12
Special contribution to the defence fund	1	2	-	-
Special levy on client deposits	718	661	718	661
Charge for the year	684	694	739	673

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. LOSS AFTER TAX FROM DISCONTINUED OPERATIONS

THE GROUP

In October 2018 an application was submitted to the Central Bank of Russian Federation (CBRF) for the voluntary winding-up of the Bank's Russian subsidiary JSC cdbbank. The application for voluntary wind-up and cancellation of Banking License was approved by CBRF in December 2018. Following the approval of the application, actions were taken by the Bank for the winding up of operations including amongst others the disposal of the subsidiary's assets and repayment of deposits by 31 May 2019. In June 2019 the final Liquidation Accounts of JSC cdbbank were submitted for approval to the CBRF and in July 2019 CBRF provided its final approval for the liquidation of JSC cdbbank and cancelled its banking licence. In September 2019 JSC Cdbbank was removed from the register of companies in Russia. Notes 22 and 23 are also relevant.

The discontinued classification is considered appropriate because operations of JSC cdbbank Russia constitute a separate geographical segment.

The total effect of the Group's discontinued operations in Russia is presented below:

Discontinued Operations	2019 €'000	2018 €'000
Turnover	29	694
Net interest income	29	408
Fees and commissions	-	64
Net foreign exchange gains	-	90
Total net income	29	562
Total expenses	(289)	(574)
Provisions for impairment	(139)	(151)
Loss before tax	(399)	(163)
Tax	-	-
Loss after tax	(399)	(163)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. BASIC AND DILUTED EARNINGS PER SHARE

	THE GROUP 2019	THE GROUP 2018	THE BANK 2019	THE BANK 2018
Basic and diluted profit/(loss) per share				
Loss attributable to the owners of the parent company (€'000)	(940)	(2.143)	2.282	(1.794)
Weighted average number of shares in issue during the year ('000)	36.620	25.961	36.620	25.961
Basic and fully diluted profit/(loss) per share (cent)	(2,57)	(8,25)	6,23	(6,91)

	THE GROUP 2019	THE GROUP 2018	THE BANK 2019	THE BANK 2018
Basic and diluted profit/(loss) per share from continuing operations				
Loss attributable to the owners of the parent company (€'000)	(541)	(1.980)	2.282	(1.794)
Weighted average number of shares in issue during the year ('000)	36.620	25.961	36.620	25.961
Basic and fully diluted profit/(loss) per share (cent)	(1,48)	(7,63)	6,23	(6,91)

	THE GROUP 2019	THE GROUP 2018	THE BANK 2019	THE BANK 2018
Basic and diluted loss per share from discontinued operations				
Loss attributable to the owners of the parent company (€'000)	(399)	(163)	-	-
Weighted average number of shares in issue during the year ('000)	36.620	25.961	-	-
Basic and fully diluted loss per share (cent)	(1,09)	(0,62)	-	-

Weighted average number of ordinary shares in issue

	THE GROUP AND THE BANK 2019	THE GROUP AND THE BANK 2018
Issued ordinary shares at 1 January (€'000)	25.961	25.961
Effect of shares issued/reduced in March 2019 - net ('000)	7.820	-
Effect of shares issued in June 2019 ('000)	1.677	-
Effect of shares issued in September 2019 ('000)	1.162	-
Weighted average number of shares in issue during the year ('000)	36.620	25.961

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Cash	1.018	1.202	1.018	1.202
Balances with central banks	179.675	200.795	179.675	200.795
	180.693	201.997	180.693	201.997
Balances with other banks	21.664	29.809	21.384	29.673
Stage 1 – 12 month expected credit losses	(1)	(39)	(1)	(39)
	21.663	29.770	21.383	29.634

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.868 thousand (2018: €4.981 thousand) for the Group and the Bank.

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. ASSESSED FAIR VALUE OF DERIVATIVES

Derivatives consist of forward exchange rate contracts. The nominal value and assessed fair value of derivatives are as follows:

THE GROUP AND THE BANK

	Nominal value €'000	Assessed fair value Asset €'000
Forward exchange rate contracts		
At 31 December 2019	-	-
At 31 December 2018	2.880	128

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2019 €'000	2018 €'000
Loans and advances	280.813	313.024
Impairment losses individually assessed	(50.395)	(63.023)
Impairment losses collectively assessed	(2.720)	(3.552)
	227.698	246.449

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.

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

2019	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total **€'000**
1 January	107.055	71.566	114.524	19.879	**313.024**
Transfer from Stage 1 to Stage 2	(4.810)	4.810	-	-	**-**
Transfer from Stage 1 to Stage 3	(182)	-	182	-	**-**
Transfer from Stage 2 to Stage 3	-	(16.988)	16.988	-	**-**
Transfer from Stage 3 to Stage 2	-	1.805	(1.805)	-	**-**
Transfer from Stage 2 to Stage 1	24.271	(24.271)	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Net movement during the period	543	(4.289)	(27.876)	(589)	**(32.211)**
31 December	126.877	32.633	102.013	19.290	**280.813**

THE GROUP AND THE BANK

2018	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total **€'000**
1 January	76.756	74.469	146.435	20.583	318.243
Transfer from Stage 1 to Stage 2	(1.853)	1.853	-	-	**-**
Transfer from Stage 1 to Stage 3	(977)	-	977	-	**-**
Transfer from Stage 2 to Stage 3	-	(4.326)	4.326	-	**-**
Transfer from Stage 3 to Stage 2	-	24.195	(24.195)	-	**-**
Transfer from Stage 2 to Stage 1	16.243	(16.243)	-	-	**-**
Transfer from Stage 3 to Stage 1	595	-	(595)	-	**-**
Net movement during the period	16.291	(8.382)	(12.424)	(704)	**(5.219)**
31 December	107.055	71.566	114.524	19.879	**313.024**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	9.794	9.794	8.058	8.058
Disposals	(3.709)	-	(1.973)	-
Balance 31 December	6.085	9.794	6.085	8.058
Permanent diminution				
Balance 1 January	(9.180)	(9.180)	(7.711)	(7.711)
Disposals	3.117	-	1.648	-
Balance 31 December	(6.063)	(9.180)	(6.063)	(7.711)
Revaluation at fair value				
Balance 1 January	382	364	326	324
Disposals	(270)	-	(205)	-
Increase in fair value	716	18	707	2
Balance 31 December	828	382	828	326
Balance 31 December at fair value	850	996	850	673

Investments in equities relate to investments in Cyprus companies listed on the Cyprus Stock Exchange and are classified as investment at fair value through other comprehensive income.

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 2019

20. INVESTMENTS IN DEBT SECURITIES

THE GROUP AND THE BANK

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Securities at fair value through other comprehensive income				
Sovereigns	91.383	59.506	91.133	59.506
EU and international organisations	3.573	3.452	3.573	3.452
Credit institutions	895	2.603	895	2.603
Corporate bonds	-	14.061	-	14.061
	95.851	79.622	95.601	79.622

All debt securities at FVTOCI are listed.

The movement of debt securities was as follows:

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Balance 1 January	79.714	50.671	79.714	50.671
Acquisitions	188.202	111.159	187.970	111.159
Disposals	(40.166)	(7.551)	(40.166)	(7.551)
Maturities	(131.195)	(74.420)	(131.195)	(74.420)
Amortisation of discounts/premiums and interest	(2.283)	(697)	(2.282)	(697)
Foreign exchange difference	1.091	792	1.090	792
Mark to market valuation	509	(240)	491	(240)
	95.872	79.714	95.622	79.714
Stage 1 – 12 month expected credit losses	(21)	(92)	(21)	(92)
Balance 31 December	95.851	79.622	95.601	79.622

Movement of Expected credit losses

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Balance 1 January	92	-	92	-
Impact of adopting IFRS 9 at 1 January 2018	-	70	-	70
Stage 1 – 12 month expected credit losses (note 12)	(71)	22	(71)	22
Balance 31 December	21	92	21	92

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 2019

21. INVESTMENTS IN SUBSIDIARY COMPANIES

THE BANK

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

	Shareholding		Activities
	2019	2018	
	%	%	
In Cyprus:			
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services
In the Russian Federation:			
JSC cdbbank	-	100,00	Commercial banking operations. Classified as discontinued operations. Voluntary winding-up completed in September 2019 (note 14).

At 31 December 2019 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. LLC Cyproperties is a company registered in the Russian Federation, with assets (loans and properties) assigned from JSC cdbbank.

Cyprus registered companies

- Pekito Holdings Limited
- Tsemberio Holding Limited
- Glumar Limited
- Welbon Limited
- Naplas Limited
- Metrore Ltd
- Jekelani Ltd

Russian registered company

- LLC Cyproperties

Shareholding interest in Global Capital Limited

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
	2019	2018	
	%	%	
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 2019

21. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

THE BANK (continued)

	2019	2018
The Bank's exposure in Global Capital Limited is shown below:	€'000	€'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(1.186)	(1.310)
Fair value of investment 31 December	**1.095**	**971**
Amounts due to subsidiary company	(439)	(316)
Amounts due by subsidiary company	152	184
Total exposure in Global Capital Limited	**808**	**839**
Income for the year	25	24
Expenses for the year	121	12

Shareholding interest in Special Purpose Entities (SPEs)

	2019	2018
The Bank's exposure in Special Purpose Entities is shown below:	€'000	€'000
Cost of investments 1 January	4	4
Additions – new subsidiaries set up	3	-
Adjustment to assessed fair value	(3)	(3)
Fair value of investments 31 December	**4**	**1**
Amounts due to SPEs	(173)	(156)
Amounts due by SPEs	18.959	14.530
Total exposure in SPEs	**18.790**	**14.375**
Income for the year	-	81
Expenses for the year	-	-
Total exposure in subsidiary companies	**19.598**	**15.214**

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

Movement of fair value of subsidiaries:

	2019	2018
	€'000	€'000
Fair value 1 January	15.214	5.527
Exchange difference on opening balances	(53)	(142)
Additions – new subsidiaries set up	3	1
Loan disbursements	8.617	13.156
Loan repayments	(4.145)	(3.182)
Increase of subsidiaries' deposits with the Bank	(140)	(167)
Expenses/services to subsidiaries	78	87
Services from subsidiaries	(91)	(14)
Adjustment to assessed fair value for the year	115	(52)
Fair value of investments 31 December	**19.598**	**15.214**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. SUBSIDIARY COMPANY UNDER VOLUNTARY WIND-UP

THE BANK

Shareholding interest in JSC cdbbank

In line to its stated strategy of disengaging from its Russian operations, CDB proceeded back in October 2018, with an application to Central Bank of Russian Federation (CBRF) for the voluntary wind-up of JSC cdbbank which was approved in December 2018. The wind-up was successfully completed in 2019 as follows:

- April 2019: CBRF provided an Interim Approval for the liquidation of JSC cdbbank;
- May 2019: All liabilities of IBK, including client deposits, were repaid and within the same month the Bank received from JSC cdbbank the amount of €2,5m for settlement of the subordinated loan which was extended to the Russian subsidiary;
- July 2019: CBRF approved the Final Liquidation Accounts of JSC cdbbank and within the same month the amount of €1,2m (RUB87m), representing part of the Bank's investment in the Russian subsidiary was repatriated.
- September 2019: JSC cdbbank was removed from the register of companies in Russia.

Notes 14 and 23 are also relevant.

The Bank's exposure in JSC cdbbank is shown below:

	2019 €'000	2018 €'000
Cost of investment 1 January	6.442	6.442
Capital repatriated upon completion of voluntary wind up	(1.232)	-
	5.210	6.442
Exchange differences	(2.519)	(2.788)
	2.691	3.654
Adjustment to assessed fair value	(2.691)	(2.170)
Assessed fair value of investment	**-**	**1.484**
Amounts due by subsidiary company	-	2.515
Balance 31 December	**-**	**3.999**
Income for the year	-	101
Expenses for the year	-	45

The amount of €2.515 thousand due by the subsidiary company at the end of 2018 relates to a subordinated loan. In May 2019, before the submission of the final liquidation accounts of JSC cdbbank to the CBRF the loan was fully repaid.

The fair value measurement for the subsidiary held for sale of €1.484 thousand at 31 December 2018 has been categorised as a Level 3 fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. ASSETS AND LIABILITIES OF SUBSIDIARY COMPANY UNDER VOLUNTARY WIND-UP

THE GROUP

According to the provisions of the IFRS 5, "Non-Current assets held for sale and discontinued operations", all assets and liabilities of the subsidiary JSC cdbbank under voluntary wind up have been reclassified and are presented on the face of the consolidated statement of financial position under the category Asset/Liabilities of subsidiary under wind up.

Following the successful completion of its voluntary wind-up in September 2019, JSC cdbbank held no assets or liabilities at 31 December 2019. The assets and liabilities of the subsidiary company JSC cdbbank included in the consolidated statement of financial position as at 31 December 2018 were stated at fair value as follows:

THE GROUP

	2018 €'000
Assets	
Cash and balances with banks	3.398
Loans and advances	436
Premises and equipment	25
Property held for sale	154
Receivables and other assets	13
Total assets held for sale	4.026
Liabilities	
Client deposits	18
Accruals and other liabilities	9
Total liabilities held for sale	27

An amount of €2.920 thousand relating to exchange differences recorded in foreign currency reserve was transferred to the Income Statement upon the completion of the voluntary winding-up of JSC Cdbbank in September 2019.

Notes 14 and 22 are also relevant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. PREMISES AND EQUIPMENT

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2019				
Cost or valuation				
Balance 1 January	6.260	3.032	-	9.292
Initial adoption of IFRS16 – Right-of-use assets	-	-	1.060	1.060
Additions	60	68	-	128
Disposals	(15)	(45)	-	(60)
Balance 31 December	6.305	3.055	1.060	10.420
Depreciation				
Balance 1 January	564	2.272	-	2.836
Charge for the year	142	304	213	659
Disposals	(10)	(44)	-	(54)
Balance 31 December	696	2.532	213	3.441
Net book value 31 December	5.609	523	847	6.979
Historic net book value of owned premises stated at valuation 31 December	3.543	-	-	3.543

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
2018				
Cost or valuation				
Balance 1 January	6.199	3.174	-	9.373
Additions	61	220	-	281
Disposals	-	(362)	-	(362)
Balance 31 December	6.260	3.032	-	9.292
Depreciation				
Balance 1 January	417	2.334	-	2.751
Charge for the year	147	300	-	447
Disposals	-	(362)	-	(362)
Balance 31 December	564	2.272	-	2.836
Net book value 31 December	5.696	760	-	6.456
Historic net book value of owned premises stated at valuation 31 December	3.650	-	-	3.650

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. PREMISES AND EQUIPMENT (continued)

THE BANK

2019	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
Cost or valuation				
Balance 1 January	6.148	2.791	-	8.939
Initial adoption of IFRS16 – Right-of-use assets	-	-	1.060	1.060
Additions	59	67	-	126
Disposals	-	(45)	-	(45)
Balance 31 December	6.207	2.813	1.060	10.080
Depreciation				
Balance 1 January	457	2.037	-	2.494
Charge for the year	141	301	213	655
Disposals		(43)	-	(43)
Balance 31 December	598	2.295	213	3.106
Net book value 31 December	5.609	518	847	6.974
Historic net book value of owned premises stated at valuation 31 December	3.543	-	-	3.543

THE BANK

2018	Land and buildings €'000	Plant and equipment €'000	Right-of-use assets €'000	Total €'000
Cost or valuation				
Balance 1 January	6.087	2.934	-	9.021
Additions	61	219	-	280
Disposals		(362)	-	(362)
Balance 31 December	6.148	2.791	-	8.939
Depreciation				
Balance 1 January	322	2.102	-	2.424
Charge for the year	135	298	-	433
Disposals	-	(363)	-	(363)
Balance 31 December	457	2.037	-	2.494
Net book value 31 December	5.691	754	-	6.445
Historic net book value of owned premises stated at valuation 31 December	3.644	-	-	3.644

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. PREMISES AND EQUIPMENT (continued)

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 3.18.

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 (€8-15 per sq.m. for offices and €500-2.000 for common areas). • Remaining useful life of the property (30 years). • Capitalization rate (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 (€2.400 – 2.550 per sq.m.).	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 2017 at open market value on the basis of existing use. The surplus arising from the revaluation of freehold premises amounting to €642 thousand less related deferred tax of €135 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 2019 would have amounted to €3.503 thousand (2018: €3.582 thousand). The net book value of leasehold premises as at 31 December 2019 amounts to €40 thousand (2018: €62 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. INTANGIBLE ASSETS

2019	**THE GROUP** Computer software €'000	**THE BANK** Computer software €'000
Cost		
Balance 1 January	4.930	4.773
Additions	324	307
Balance 31 December	5.254	5.080
Depreciation and impairment losses		
Balance 1 January	3.865	3.718
Charge for the year	391	384
Balance 31 December	4.256	4.102
Net book value 31 December	998	978

2018	**THE GROUP** Computer software €'000	**THE BANK** Computer software €'000
Cost		
Balance 1 January	4.262	4.114
Additions	732	722
Write-offs	(64)	(63)
Balance 31 December	4.930	4.773
Depreciation and impairment losses		
Balance 1 January	3.646	3.498
Charge for the year	283	283
On write-offs	(64)	(63)
Balance 31 December	3.865	3.718
Net book value 31 December	1.065	1.055

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Stock of properties held for sale	19.362	14.424	619	-
Sundry debtors and other assets	1.540	2.204	730	1.404
	20.902	16.628	1.349	1.404

Stock of properties held for sale

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 properties is determined as the lower of cost and net realisable value. Impairment is recognized if the net realisable value is below cost.

The stock of properties held at 31 December 2019 consists of commercial buildings and land in Nicosia and Limassol Districts and agricultural land in Sochi region of the Russian Federation.

The movement of stock of properties held for sale is as follows:

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Balance 1 January	14.424	3.666	-	30
Exchange difference	(76)			
Additions	9.194	10.664	619	-
Disposals	(4.180)	-	-	(30)
Reversal of impairment	-	94	-	-
Balance 31 December	19.362	14.424	619	-

27. BANK BORROWINGS

THE GROUP AND THE BANK

	2019	2018
	€'000	€'000
Borrowings	3.592	4.013
	3.592	4.013

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. BANK BORROWINGS (continued)

loan. Until the end of 2019 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	2019	2018	Maturity
	€'000	€'000	€'000	€'000
Tranche 1	2.000	1.601	1.801	November 2027
Tranche 2	2.210	1.991	2.212	October 2027
	4.210	3.592	4.013	

28. CLIENT DEPOSITS

THE GROUP AND THE BANK

	2019	2018
	€'000	€'000
Demand deposits	279.616	296.349
Fixed-term or notice deposits	216.682	219.641
	496.298	515.990

29. DEFERRED TAXATION

THE GROUP AND THE BANK	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Balance 1 January	329	319	329	319
Deferred tax on revaluation of premises	-	(1)	-	(1)
Deferred tax on temporary differences	56	-	-	-
Debited to the income statement	(35)	11	21	11
Balance 31 December	350	329	350	329

	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Surplus on revaluation of premises (net of accumulated depreciation)	386	386	386	386
Accumulated temporary differences between depreciation and capital allowances	(36)	(57)	(36)	(57)
	350	329	350	329

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

	2019		2018	
	€'000	Expiry date	€'000	Expiry date
Balance 31 December	8.123	2020-2024	7.482	2019-2023

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	1.412	1.780	1.079	1.624
Items in the course of settlement[1]	3.365	22.945	3.366	22.774
Deferred income[2]	321	257	321	257
Lease liability (note 31)	855	-	855	-
Provisions for financial guarantees and commitments	519	479	519	479
Provision for pending litigation	-	60	-	60
	6.472	25.521	6.140	25.194

[1] Items in the course of settlement as at 31 December 2018, include an amount of €13 million relating to an incoming fund received on 31 December 2018 which was applied to the customer's account after year end.

[2] 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	2019	2018
	€'000	€'000
Balance 1 January	479	310
Impact of adopting IFRS 9 at 1 January 2018	-	251
Net increase/(decrease) in provision (note 12)	40	(82)
Balance 31 December	519	479

Provisions for pending litigation

The movement for the year in provisions for pending litigation is as follows:

THE GROUP AND THE BANK	2019	2018
	€'000	€'000
Balance 1 January	60	120
Provisions used during the year	(58)	(8)
Provisions reversed during the year	(2)	(52)
Balance 31 December	-	60

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. LEASE LIABILITIES

The Group is a lessee for commercial properties such as office buildings and branches. Prior to IFRS 16, applicable from 1 January 2019, those contracts were classified as operating leases under IAS 17. Prior period information is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations in which the Group as lessee recognised lease payments in operating expenses on a straight-line basis and disclosed future minimum lease payments. 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.

The difference between operating lease commitments of €650 thousand disclosed in the Group's 2018 Financial Statements and new recognised lease liabilities of €1.060 thousand on 1 January 2019 is driven by different requirements between the old and new standard on which expected cash flows to include. IFRS 16 requires the lease term used to measure lease liabilities to include "reasonably certain" renewal options, whereas previously IAS17 required disclosure of "non-cancellable" lease commitments. The consequence of this is that under IFRS 16, for some leases the Group includes lease renewal options which is reasonably certain will be exercised in the measurement of lease liabilities. The cash flows associated with renewal options were not included in the previous operating lease commitment disclosures.

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.

The total cash outflow during the year for leases of premises was €234 thousand.

The right-of-use asset balances and depreciation charges are disclosed in Note 24. The lease liability balances are disclosed in Note 30 and the interest expense on lease liabilities is disclosed in Note 5.

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

THE GROUP AND THE BANK

	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	215	210	430	-	855

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

The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 under IAS 17 are presented below:

	2018 €'000
Within one year	245
Between one and five years	405
After five years	-
	650

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. LOAN CAPITAL

THE GROUP AND THE BANK

	2019 €'000	2018 €'000
Perpetual Unsecured Subordinated Note measured at amortised cost	5.000	5.000

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 2019 the conditions for payment of interest were not met, and consequently no interest was paid or accrued on the Note.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. SHARE CAPITAL

THE BANK

	2019		2018	
	No. of shares	Share Capital	No. of shares	Share Capital
		€'000		€'000
Authorised:				
Ordinary shares of €0,20 each	704.849.584	140.970	-	-
Ordinary shares of €1,71 each	-	-	79.397.600	135.770
Class "A" shares of €1,71 each	-	-	13.000.000	22.230
Class "B" shares of €1,00 each	-	-	13.000.104	13.000
Balance 31 December	704.849.584	140.970	105.397.704	171.000
Issued and fully paid:				
Ordinary shares of NV €0,20 each				
Balance 1 January	-	-	-	-
Class "A" shares converted to ordinary shares	12.961.354	2.592	-	-
Class "B" shares converted to ordinary shares	13.000.000	2.600	-	-
Class "B" shares converted to ordinary shares	13.030.303	2.606	-	-
Issued during the year	4.284.322	857	-	-
Balance 31 December	43.275.979	8.655	-	-
Class "A" shares of NV €1,71 each				
Balance 1 January	12.961.354	22.164	12.961.354	22.164
Capital reduction – NV/share from €1,71 to €0,20	-	(19.572)	-	-
Converted to ordinary shares	(12.961.354)	(2.592)	-	-
Balance 31 December	-	-	12.961.354	22.164
Class "B" shares of NV €1,00 each				
Balance 1 January	13.000.000	13.000	13.000.000	13.000
Capital reduction – NV/share from €1,00 to €0,20	-	(10.400)	-	-
Converted to ordinary shares	(13.000.000)	(2.600)	-	-
Balance 31 December	-	-	13.000.000	13.000
Class "B" shares of NV €0,20 each				
Balance 1 January	-	-	-	-
Issued during the year	13.030.303	2.606	-	-
Converted to ordinary shares	(13.030.303)	(2.606)	-	-
Balance 31 December	-	-	-	-
Total issued share capital	**43.275.979**	**8.655**	**25.961.354**	**35.164**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. SHARE CAPITAL (continued)

Authorised Share Capital

On 12 March 2019, an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, during which special resolutions were proposed and approved for the conversion of all classes of shares into a single class of ordinary shares in order to simplify the Bank's capital structure. The change in structure resulted to a decrease of the nominal value of the authorised share capital from €171.000.000 to €140.969.917.

All classes of authorised share capital at the end of 2018, namely ordinary shares, Class "A" and Class "B" shares carried equal voting rights.

Issued Share Capital

On 12 March 2019 at the Extraordinary General Meeting (EGM) of the shareholders of the Bank a resolution was passed for the increase of the Bank's issued share capital by €4,3 million through the issuance of 13.030.303 class "B" shares with a nominal value of €0,20 each at a subscription price of €0,33 each. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3million towards the Bank's capital. The remaining unallocated capital of €1million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019.

In addition, a resolution was proposed and approved for the reduction of the issued share capital of the Bank from €35.164 thousand to €5.192 thousand. The amount of €29.972 thousand corresponding to the amount of the reduction of the Company's issued share capital to be applied for writing off accumulated losses of the Bank and the remaining amount to be transferred to a capital reduction reserve fund account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

Notwithstanding the difference in their nominal value and their segregation into two classes, all issued shares at the end of 2018, namely Class "A" shares and Class "B" shares ranked pari passu in all respects including voting, return of capital etc., except that Class A shares carried a right to a preference cumulative dividend as described in the Bank's Articles of Association.

On 24 September 2019, with a special resolution of the shareholders of the Bank, the non-redeemable capital account of €4 million was converted into ordinary share capital through the issue and allotment of a total of 4.284.322 ordinary shares with a nominal value of €0,20 each to four of the existing shareholders at a total price of €4 million (€0,9336 per ordinary share).

Share premium

The difference between the issue price of share capital and its nominal value is recognised in the share premium reserve. The share premium is not available for distribution to shareholders in the form of a dividend. In 2019 shares were issued at a premium as follows:

	Number of shares issued	NV €	Issue Price €	NV € '000	Share Premium € '000	Total Capital € '000
Special resolution 12 March 2019	13.030.303	0,20	0,33	2.606	1.694	4.300
Special resolution 24 September 2019	4.284.322	0,20	0,93	857	3.143	4.000
				3.463	4.837	8.300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. 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

	2019	2018
	€'000	€'000
Guarantees issued	39.765	31.621

Commitments

	2019	2018
	€'000	€'000
Documentary credits	1.666	3.605
Undrawn commitments for loans and advances granted to clients	35.916	39.641
	37.582	43.246
Contingent liabilities and commitments	**77.347**	**74.867**

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 been utilised by the client yet.

Capital Commitments

Commitments for contracted capital expenditure as at 31 December 2019 amount to €2.823 thousand (2018: €102 thousand).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FAIR VALUE (continued)

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 2019 and 2018, the Group did not make any transfers into and out of the fair value hierarchy levels.

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

THE GROUP

2019	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Investments at FVOCI				
Equities	850	-	-	850
Debt securities	95.851	-	-	95.851
	96.701	-	-	96.701
Financial liabilities	-	-	-	-

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives	-	128	-	128
Investments at FVOCI				
Equities	996	-	-	996
Debt securities	79.622	-	-	79.622
	80.618	128	-	80.746
Financial liabilities	-	-	-	-

There were no transfers between levels during 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FAIR VALUE (continued)

THE BANK

2019	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Investments at FVOCI					
Equity		850	-	-	850
Debt securities		95.601	-	-	95.601
Investments in subsidiary companies	21	-	-	1.099	1.099
		96.451	-	1.099	97.550
Financial liabilities		-	-	-	-

2018	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets					
Derivatives		-	128	-	128
Investments at FVOCI					
Equity		673	-	-	673
Debt securities		79.622	-	-	79.622
Subsidiary company under voluntary wind up	22	-	-	1.484	1.484
Investments in subsidiary companies	21	-	-	972	972
		80.295	128	2.456	82.879
Financial liabilities		-	-	-	-

There were no transfers between levels during 2019 and 2018.

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

THE GROUP

2019	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	24	-	-	5.609	5.609

2018		Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	24	-	-	5.691	5.691

There were no transfers between levels during 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FAIR VALUE (continued)

THE BANK

2019	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	24	-	-	5.609	5.609

2018		Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets					
Premises	24	-	-	5.691	5.691

There were no transfers between levels during 2019 and 2018.

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

2019	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	180.693	-	180.693
Balances with other banks	-	21.663	-	21.663
Loans and advances	-	-	227.698	227.698
	-	202.356	227.698	430.054
Financial liabilities				
Bank borrowings	-	-	3.592	3.592
Client deposits	-	-	496.298	496.298
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	519	519
	-	-	505.409	505.409

There were no transfers between levels during 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FAIR VALUE (continued)

THE GROUP (continued)

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	201.997	-	201.997
Balances with other banks	-	29.770	-	29.770
Loans and advances	-	-	246.449	246.449
	-	231.767	246.449	478.216
Financial liabilities				
Bank borrowings	-	-	4.013	4.013
Client deposits	-	-	515.990	515.990
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	479	479
	-	-	525.482	525.482

There were no transfers between levels during 2019 and 2018.

THE BANK

2019	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	180.693	-	180.693
Balances with other banks	-	21.383	-	21.383
Loans and advances	-	-	227.698	227.698
	-	202.076	227.698	429.774
Financial liabilities				
Borrowings	-	-	3.592	3.592
Client deposits	-	-	496.298	496.298
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	519	519
	-	-	505.409	505.409

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	201.997	-	201.997
Balances with other banks	-	29.634	-	29.634
Loans and advances	-	-	246.449	246.449
	-	231.631	246.449	478.080
Financial liabilities				
Bank borrowings	-	-	4.013	4.013
Client deposits	-	-	515.990	515.990
Loan capital	-	-	5.000	5.000
Provision for financial guarantees and commitments	-	-	479	479
	-	-	525.482	525482

There were no transfers between levels during 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FAIR VALUE (continued)

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:

Derivatives
Derivatives include forward foreign exchange rate contracts, which are valued using forward pricing.

Investments in subsidiaries
Investments in subsidiaries are categorised under level 3. For these investments the Group uses models which are not based on observable market data and takes into account mainly the net asset positions of the entities in which the investments have been made, as well as estimates of the Group's management to reflect uncertainties in fair values resulting from the lack of data. For the reasons mentioned sensitivity analysis is impracticable to be disclosed.

Balances with other banks
Since almost all balances with banks are very 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.

36. CASH AND CASH EQUIVALENTS

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Cash	1.018	1.202	1.018	1.202
Balances with central banks	174.807	195.814	174.807	195.814
Balances with other banks	21.588	28.871	21.308	28.736
	197.413	225.887	197.133	225.752

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 2019

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:

Risk management framework

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 regularly 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 with in the conduct of the Group's operations. The Group takes collateral for the loans and credit facilities it grants to clients. Credit risk from connected clients' accounts is monitored on an aggregated basis. The creditworthiness of clients is assessed using credit rating and scoring systems.

The Group's policy relating to recognition of income on loans and advances and provisions for impairment of doubtful accounts is stated in note 3 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 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality analysis

THE GROUP

	Note	2019 Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Balances with central banks and other banks						
Aaa - Aa3		15.046	-	-	-	15.046
A1 - A3		3.640	-	-	-	3.640
Baa1 - Baa3		1.366	-	-	-	1.366
Ba1 - Ba3		179.675	-	-	-	179.675
B1 – B3		1.398	-	-	-	1.398
Unrated		214	-	-	-	214
	16	201.339	-	-	-	201.339
Loss allowance		(1)	-	-	-	(1)
Carrying amount	16	201.338	-	-	-	201.338
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		125.965	32.633	-	14.027	172.625
Grade 4-5: Special mention		912	-	-	64	976
Non-performing		-	-	102.013	5.199	107.212
	18	126.877	32.633	102.013	19.290	280.813
Loss allowance	18	(2.017)	(595)	(50.162)	(341)	(53.115)
Carrying amount	18	124.860	32.038	51.851	18.949	227.698
Loans and advances to customers at amortised cost - gross carrying amount						
Current		105.028	23.082	4.598	12.024	144.732
Overdue < 30 days		16.397	6.004	3.569	3.281	29.251
Overdue > 30 days		5.452	3.547	93.846	3.985	106.830
Total	18	126.877	32.633	102.013	19.290	280.813
Debt securities						
Aaa - Aa3		29.885	-	-	-	29.885
A1 - A3		-	-	-	-	-
Baa1 - Baa3		5.002	-	-	-	5.002
Ba1 - Ba3		50.985	-	-	-	50.985
Ba1 - Ba3		10.000	-	-	-	10.000
	20	95.872	-	-	-	95.872
Loss allowance	20	(21)	-	-	-	(21)
Carrying amount	20	95.851	-	-	-	95.851
Financial guarantees and loan commitments						
Gross amount	34	71.793	388	209	3.291	75.681
Loss allowance	30	(459)	(12)	(48)	-	(519)
Carrying amount		71.334	376	161	3.291	75.162

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Credit quality analysis (continued)

THE GROUP

				2018		
	Note	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	**POCI €'000**	**Total €'000**
Balances with central banks and other banks						
Aaa - Aa3		1.557	-	-	-	1.557
A1 - A3		15.609	-	-	-	15.609
Baa1 - Baa3		10.681	-	-	-	10.681
Ba1 - Ba3		200.797	-	-	-	200.797
B1 – B3		1.818	-	-	-	1.818
Caa - C		-	-	-	-	-
Unrated		142	-	-	-	142
	16	230.604	-	-	-	230.604
Loss allowance		(39)	-	-	-	(39)
Carrying amount	16	230.565	-	-	-	230.565
Loans and advances to customers at amortised cost - gross carrying amount						
Grade 1-3: Low-medium risk		103.225	56.683	-	8.995	168.903
Grade 4-5: Special mention		3.830	14.883	-	-	18.713
Non-performing		-	-	114.524	10.884	125.408
	18	107.055	71.566	114.524	19.879	313.024
Loss allowance	18	(2.024)	(1.527)	(62.993)	(31)	(66.575)
Carrying amount	18	105.031	70.039	51.531	19.848	246.449
Loans and advances to customers at amortised cost - gross carrying amount						
Current		97.168	68.234	5.597	12.669	183.668
Overdue < 30 days		6.965	3.046	3.631	2.744	16.386
Overdue > 30 days		2.922	286	105.296	4.466	112.970
Total	18	107.055	71.566	114.524	19.879	313.024
Debt securities						
Aaa - Aa3		38.861	-	-	-	38.861
A1 - A3		2.650	-	-	-	2.650
Baa1 - Baa3		8.988	-	-	-	8.988
Ba1 - Ba3		29.215	-	-	-	29.215
	20	79.714	-	-	-	79.714
Loss allowance	20	(92)	-	-	-	(92)
Carrying amount	20	79.622	-	-	-	79.622
Financial guarantees and loan commitments						
Gross amount	34	69.176	198	233	1.655	71.262
Loss allowance	30	460	-	19	-	479
Carrying amount		69.636	198	252	1.655	71.741

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK	2019				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	52.741	13.026	29.162	24	94.953
Construction & real estate	45.133	1.801	19.241	17.525	83.700
Industry	4.394	709	16.971	-	22.074
Hotels & catering	16.126	16.558	6.236	1.204	40.124
Agriculture	304	-	12.251	-	12.555
Transport and storage	1.761	-	575	-	2.336
Other sectors	6.418	539	17.577	537	25.071
	126.877	32.633	102.013	19.290	280.813
Loss allowance	(2.017)	(595)	(50.162)	(341)	(53.115)
Carrying amount	124.860	32.038	51.851	18.949	227.698

Concentration by location

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 €80 thousand (2018: €81 thousand).

THE GROUP AND THE BANK	2018				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
Services	53.047	19.165	25.899	1.958	100.069
Construction & real estate	33.069	21.614	17.817	16.408	88.908
Industry	3.287	4.441	33.373	-	41.101
Hotels & catering	6.908	15.258	10.349	-	32.515
Agriculture	11	-	16.403	-	16.414
Transport and storage	1.064	-	517	-	1.581
Other sectors	9.669	11.088	10.166	1.513	32.436
	107.055	71.566	114.524	19.879	313.024
Loss allowance	(2.024)	(1.527)	(62.993)	(31)	(66.575)
Carrying amount	105.031	70.039	51.531	19.848	246.449

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK	2019 €'000	2018 €'000
Carrying amount		
Grade 1-3: Low-medium risk	169.938	165.382
Grade 4-5: Special mention	943	18.682
	170.881	184.064
Of which loans and advances with renegotiated terms	32.697	50.632
*Value of collateral security**		
Grade 1-3: Low-medium risk	120.183	111.379
Grade 4-5: Special mention	583	18.410
	120.766	129.789
Of which loans and advances with renegotiated terms	31.644	46.552

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

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For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK

2019		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	66.064	48.949	3.960	52.909	13.155
Construction & real estate	71.496	41.589	11.198	52.787	18.709
Industry	28.094	4.627	-	4.627	23.467
Hotels & catering	33.962	17.343	12.079	29.422	4.540
Agriculture	10.157	-	-	-	10.157
Transport and storage	1.000	1.000	-	1.000	-
Other sectors	1.337	-	-	-	1.337
	212.110	113.508	27.237	140.745	71.365
Loans and advances to retail legal entities					
Services	11.519	6.380	-	6.380	5.139
Construction & real estate	8.801	3.449	1.908	5.357	3.444
Industry	3.898	873	101	974	2.924
Hotels & catering	1.620	783	-	783	837
Agriculture	2.179	304	-	304	1.875
Transport and storage	1.196	761	-	761	435
Other sectors	-	-	-	-	-
	29.213	12.550	2.009	14.559	14.654
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	9.882	3.550	-	3.550	6.332
Consumer Loans	10.095	2.567	721	3.288	6.807
Current accounts	4.666	1.544	5	1.549	3.117
Credit facilities to sole traders	14.847	6.753	3.157	9.910	4.937
	39.490	14.414	3.883	18.297	21.193
Total loans and advances	280.813	140.472	33.129	173.601	107.212
Provisions	(53.115)	(2.288)	(432)	(2.720)	(50.395)
Carrying amount	227.698	138.184	32.697	170.881	56.817

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK

2018		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	84.451	51.843	11.135	62.978	21.473
Construction & real estate	80.207	45.311	14.540	59.851	20.356
Industry	36.991	6.716	122	6.838	30.153
Hotels & catering	27.731	6.585	13.835	20.420	7.311
Agriculture	14.416	-	-	-	14.416
Transport and storage	1.019	1.019	-	1.019	-
Other sectors	1.240	-	-	-	1.240
	246.055	111.474	39.632	151.106	94.949
Loans and advances to retail legal entities					
Services	12.587	7.741	390	8.131	4.456
Construction & real estate	6.818	3.085	-	3.085	3.733
Industry	4.029	809	-	809	3.220
Hotels & catering	2.872	616	855	1.471	1.401
Agriculture	1.784	11	-	11	1.773
Transport and storage	428	45	-	45	383
Other sectors	-	-	-	-	-
	28.518	12.307	1.245	13.552	14.966
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	9.466	2.439	6.368	8.807	659
Consumer Loans	16.901	6.608	4.305	10.913	5.988
Current accounts	4.829	1.777	1	1.778	3.051
Credit facilities to sole traders	7.255	1.442	18	1.460	5.795
	38.451	12.266	10.692	22.958	15.493
Total loans and advances	313.024	136.047	51.569	187.616	125.408
Provisions	(66.575)	(2.615)	(937)	(3.552)	(63.023)
Carrying amount	246.449	133.432	50.632	184.064	62.385

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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		
2019	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	25.343	3.492	1.637	21.300	3.461	1.588	1.223	-	13	2.820	31	36
Between one and two years	23.509	177	216	21.220	140	164	676	-	-	1.613	37	52
Between two and three years	17.628	307	440	15.180	306	392	150	-	-	2.298	1	48
Between three and five years	22.664	12.930	3.576	17.492	8.389	1.802	315	-	-	4.857	4.541	1.774
Between five and seven years	6.805	3.295	1.443	4.058	1.303	884	53	-	-	2.694	1.992	559
Between seven and ten years	84.909	33.230	13.081	71.286	26.043	12.531	7.024	6.331	368	6.599	856	182
Over ten years	99.955	53.781	32.722	90.787	46.377	27.739	441	1	1	8.727	7.403	4.982
	280.813	107.212	53.115	241.323	86.019	45.100	9.882	6.332	382	29.608	14.861	7.633

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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		
2018	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	31.045	561	501	28.899	544	473	584	-	3	1.562	17	25
Between one and two years	20.401	366	550	17.755	104	529	159	-	-	2.487	262	21
Between two and three years	15.708	8.120	234	14.352	7.278	216	236	-	-	1.120	842	18
Between three and five years	9.464	6.547	2.336	5.847	3.069	1.056	98	1	-	3.519	3.477	1.280
Between five and seven years	37.360	9.260	3.996	25.005	8.794	3.269	6.641	-	211	5.714	466	516
Between seven and ten years	117.061	40.248	23.164	110.009	37.995	22.264	889	-	2	6.163	2.253	898
Over ten years	81.985	60.306	35.794	72.705	52.129	30.751	859	659	345	8.421	7.518	4.698
	313.024	125.408	66.575	274.572	109.913	58.558	9.466	660	561	28.986	14.835	7.456

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

2019	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	12.930	6.314	6.616	5.655
Between three and six months	15.884	1.043	14.841	14.096
Between six months and one year	3.758	1.705	2.053	1.815
Over one year	74.640	41.333	33.307	28.442
Total	107.212	50.395	56.817	50.008
Of which loans and advances with renegotiated terms	50.663	13.168	37.495	35.663

2018	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	15.891	3.853	12.038	10.176
Between three and six months	4.553	724	3.829	2.779
Between six months and one year	6.941	2.070	4.871	4.399
Over one year	98.023	56.376	41.647	33.784
Total	125.408	63.023	62.385	51.138
Of which loans and advances with renegotiated terms	53.635	19.822	33.813	28.032

**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 Risk Department’s assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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

	Maximum exposure to credit risk	Value of collateral*				Net exposure to credit risk
2019	€'000	Cash €'000	Property €'000	Other €'000	Total collateral €'000	€'000
Loans and advances to customers						
Performing						
Stage 1	124.860	5.665	73.263	501	79.429	45.431
Stage 2	32.038	82	27.518	-	27.600	4.438
POCI	13.983	-	13.737	-	13.737	246
	170.881	5.747	114.518	501	120.766	50.115
Non-performing						
Stage 3	51.851	164	43.802	1.076	45.043	6.809
POCI	4.966	-	4.966	-	4.965	-
	56.817	164	48.768	1.076	50.008	6.809
	227.698	5.911	163.286	1.577	170.774	56.924
2018						
Loans and advances to customers						
Performing						
Stage 1	105.031	5.357	54.924	500	60.781	44.250
Stage 2	70.039	312	59.704	-	60.016	10.023
POCI	8.993	-	8.993	-	8.993	-
	184.063	5.669	123.621	500	129.790	54.273
Non-performing						
Stage 3	51.531	95	39.272	1.485	40.852	10.679
POCI	10.855	-	10.285	-	10.285	570
	62.386	95	49.557	1.485	51.137	11.249
	246.449	5.764	173.178	1.985	180.927	65.522

**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 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

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

Provisions for impairment of doubtful accounts on loans and advances

THE GROUP AND THE BANK

			2019		
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	**Total €'000**
1 January	2.024	1.527	62.993	31	**66.575**
Transfer from Stage 1 to Stage 2	(117)	117	-	-	**-**
Transfer from Stage 1 to Stage 3	(2)	-	2	-	**-**
Transfer from Stage 2 to Stage 3	-	(344)	344	-	**-**
Transfer from Stage 3 to Stage 2	-	26	(26)	-	**-**
Transfer from Stage 2 to Stage 1	515	(515)	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Exchange differences	-	-	10	-	**10**
Loans and advances written off	-	-	(19.376)	-	**(19.376)**
Charge/(reversal) for the year	(403)	(216)	6.298	310	**5.989**
Previously written off now recovered	-	-	(83)	-	**(83)**
31 December	2.017	595	50.162	341	**53.115**

POCI: Purchased or originated as Credit Impaired

During 2019 exposures of €19.319 thousand were written off (2018: €5.894 thousand)

			2018		
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	**Total €'000**
1 January	1.470	1.231	59.809	193	**62.703**
Impact of adopting IFRS 9 at 1 January 2018	122	1.974	859	200	**3.155**
Restated balance at 1 January	1.592	3.205	60.668	393	**65.858**
Transfer from Stage 1 to Stage 2	(13)	13	-	-	**-**
Transfer from Stage 1 to Stage 3	(27)	-	27	-	**-**
Transfer from Stage 2 to Stage 3	-	(610)	610	-	**-**
Transfer from Stage 3 to Stage 2	-	359	(359)	-	**-**
Transfer from Stage 2 to Stage 1	498	(498)	-	-	**-**
Transfer from Stage 3 to Stage 1	46	-	(46)	-	**-**
Exchange differences	-	-	9	-	**9**
Loans and advances written off	(53)	(60)	(5.789)	-	**(5.902)**
Charge/(reversal) for the year	(19)	(882)	7.905	(362)	**6.642**
Previously written off now recovered	-	-	(32)	-	**(32)**
31 December	2.024	1.527	62.993	31	**66.575**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.1 Credit risk (continued)

The table below shows the loss allowance on loans and advances to customers assuming each forward-looking scenario (baseline, optimistic and pessimistic) was weighted 100% instead of applying scenario probability weights across the three scenarios:

	2019		
	Optimistic €'000	Baseline €'000	Pessimistic €'000
Loss allowance	51.100	53.500	56.000

The scenario probability weights applied by the Group for the calculation of ECL are 50% for the baseline and 25% for each of the optimistic and pessimistic scenarios.

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	
	2019 €'000	2018 €'000	2019 €'000	2018 €'000
Aaa – Aa3	15.046	1.555	15.046	1.555
A1 – A3	3.640	15.588	3.640	15.588
Baa1 – Baa3	1.366	10.667	1.366	10.667
Ba1 – Ba3	179.675	200.797	179.675	200.797
B1 – B3	1.397	1.816	1.263	1.780
Unrated	214	142	68	42
	201.338	230.565	201.058	230.429

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.

Investments in equities are outside the Group’s risk appetite. The portfolio of equity investments at 31 December 2019 comprises of a holding in one company listed in the Cyprus Stock Exchange. The prices of equity investments are being monitored by the Group on a regular basis.

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 “available-for-sale” 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.1 Price risk (continued)

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.

THE GROUP

	2019			2018		
	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						
Listed investments	850	+20	170	996	+20	199
Listed investments	850	-20	(170)	996	-20	(199)

THE BANK

	2019			2018		
	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						
Listed investments	850	+20	170	673	+20	135
Listed investments	850	-20	(170)	673	-20	(135)

Concentration of equity securities

	THE GROUP		THE BANK	
	2019 €'000	2018 €'000	2019 €'000	2018 €'000
By sector				
Services	850	782	850	459
Other sectors	-	214	-	214
	850	996	850	673

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 is designated at FVOCI, hence changes in the value of securities affect the equity of the Group. 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.

THE GROUP

	2019			2018		
	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 A3 and above rated bonds	29.884	+3%	897	41.511	+3%	1.245
For below A3 rated bonds	65.967	+10%	6.597	38.111	+10%	3.820
For A3 and above rated bonds	29.884	+3%	(897)	41.511	-3%	(1.245)
For below A3 rated bonds	65.967	-10%	(6.597)	38.111	-10%	(3.820)

THE BANK

	2019			2018		
	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 A3 and above rated bonds	29.884	+3%	897	41.511	+3%	1.245
For below A3 rated bonds	65.717	+10%	6.572	38.111	+10%	3.820
For A3 and above rated bonds	29.884	-3%	(897)	41.511	-3%	(1.245)
For below A3 rated bonds	65.717	-10%	(6.572)	38.111	-10%	(3.820)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.1 Price risk (continued)

Concentration of debt securities

	THE GROUP		THE BANK	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
By sector				
Sovereigns	91.383	59.506	91.133	59.506
EU and international organisations	3.573	3.452	3.573	3.452
Credit institutions	895	2.603	895	2.603
Corporate bonds	-	14.061	-	14.061
	95.851	79.622	95.601	79.622
By country				
Cyprus	50.964	29.131	50.714	29.131
United States of America	23.991	29.740	23.991	29.740
Other countries	20.896	20.751	20.896	20.751
	95.851	79.622	95.601	79.622

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 2019

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 2019	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	179.675	-	-	-	-	1.018	180.693
Balances with other banks	2.187	19.120	76	-	-	280	21.663
Loans and advances	112.670	15.900	91.469	-	-	7.659	227.698
Investments in equities	-	-	-	-	-	850	850
Investments in debt securities	18.893	57.115	13.893	5.700	250	-	95.851
Premises and equipment	-	-	-	-	-	6.979	6.979
Intangible assets	-	-	-	-	-	998	998
Receivables and other assets	-	-	-	-	-	20.902	20.902
Total assets	313.425	92.135	105.438	5.700	250	38.686	555.634
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.592	-	-	-	3.592
Client deposits	47.600	50.183	115.312	3.588	-	279.615	496.298
Deferred taxation	-	-	-	-	-	350	350
Accruals and other liabilities	-	-	-	-	-	6.472	6.472
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	35.267	35.267
Total liabilities and equity	47.600	50.183	118.904	3.588	-	335.359	555.634
Net position	265.825	41.952	(13.466)	2.112	250	(296.673)	-
Change in interest rates -1% - effect on profit	(2.658)	(420)	135	(21)	(3)	2.967	-
Change in interest rates +1% - effect on profit	2.658	420	(135)	21	3	(2.967)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

THE GROUP 2018	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	200.795	-	-	-	-	1.202	201.997
Balances with other banks	28.121	750	-	899	-	-	29.770
Derivatives	-	-	128	-	-	-	128
Loans and advances	106.612	19.442	120.395	-	-	-	246.449
Investments in equities	-	-	-	-	-	996	996
Investments in debt securities	8.720	6.959	9.856	27.229	26.858	-	79.622
Premises and equipment	-	-	-	-	-	6.456	6.456
Intangible assets	-	-	-	-	-	1.065	1.065
Assets of subsidiary company held for sale	3.834	-	-	-	-	192	4.026
Receivables and other assets	-	-	-	-	-	16.628	16.628
Total assets	348.082	27.151	130.379	28.128	26.858	26.539	587.137
LIABILITIES & EQUITY							
Bank borrowings	4.013	-	-	-	-	-	4.013
Client deposits	349.083	44.091	121.313	1.503	-	-	515.990
Deferred taxation	-	-	-	-	-	329	329
Liabilities of subsidiary company held for sale	-	-	-	-	-	27	27
Accruals and other liabilities	-	-	-	-	-	25.521	25.521
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	35.164	35.164
Reserves	-	-	-	-	-	1.093	1.093
Total liabilities and equity	353.096	44.091	121.313	1.503	-	67.134	587.137
Net position	(5.014)	(16.940)	9.066	26.625	26.858	(40.595)	-
Change in interest rates -1% - effect on profit	50	169	(91)	(266)	(269)	-	(407)
Change in interest rates +1% - effect on profit	(50)	(169)	91	266	269	-	407

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

THE BANK 2019	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	179.675	-	-	-	-	1.018	180.693
Balances with other banks	2.187	19.120	76	-	-	-	21.383
Loans and advances	112.670	15.900	91.469	-	-	7.659	227.698
Investments in equities	-	-	-	-	-	850	850
Investments in debt securities	18.893	57.115	13.893	5.700	-	-	95.601
Investments in subsidiary companies	-	-	-	-	-	19.598	19.598
Premises and equipment	-	-	-	-	-	6.974	6.974
Intangible assets	-	-	-	-	-	978	978
Receivables and other assets	-	-	-	-	-	1.349	1.349
Total assets	313.425	92.135	105.438	5.700	-	38.426	555.124
LIABILITIES & EQUITY							
Bank borrowings	-	-	3.592	-	-	-	3.592
Client deposits	47.600	50.183	115.312	3.588	-	279.615	496.298
Deferred taxation	-	-	-	-	-	350	350
Accruals and other liabilities	-	-	-	-	-	6.140	6.140
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	8.655	8.655
Reserves	-	-	-	-	-	35.089	35.089
Total liabilities and equity	47.600	50.183	118.904	3.588	-	334.849	555.124
Net position	265.825	41.952	(13.466)	2.112	-	(296.423)	-
Change in interest rates -1% - effect on profit	(2.658)	(420)	135	(21)	-	2.964	-
Change in interest rates +1% - effect on profit	2.658	420	(135)	21	-	(2.964)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.2 Interest rate risk (continued)

THE BANK 2018	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	200.795	-	-	-	-	1.202	201.997
Balances with other banks	27.985	750	-	899	-	-	29.634
Derivatives	-	-	128	-	-	-	128
Loans and advances	106.612	19.442	120.395	-	-	-	246.449
Investments in equities	-	-	-	-	-	673	673
Investments in debt securities	8.720	6.959	9.856	27.229	26.858	-	79.622
Subsidiary company held for sale	-	-	3.999	-	-	-	3.999
Investments in subsidiary companies	-	-	-	-	-	15.214	15.214
Premises and equipment	-	-	-	-	-	6.445	6.445
Intangible assets	-	-	-	-	-	1.055	1.055
Receivables and other assets	-	-	-	-	-	1.404	1.404
Total assets	344.112	27.151	134.378	28.128	26.858	25.993	586.620
LIABILITIES & EQUITY							
Bank borrowings	4.013	-	-	-	-	-	4.013
Client deposits	349.083	44.091	121.313	1.503	-	-	515.990
Deferred taxation	-	-	-	-	-	329	329
Accruals and other liabilities	-	-	-	-	-	25.194	25.194
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	35.164	35.164
Reserves	-	-	-	-	-	930	930
Total liabilities and equity	353.096	44.091	121.313	1.503	-	66.617	586.620
Net position	(8.984)	(16.940)	13.065	26.625	26.858	(40.624)	-
Change in interest rates -1% - effect on profit	90	169	(131)	(266)	(269)	-	(407)
Change in interest rates +1% - effect on profit	(90)	(169)	131	266	269	-	407

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.2 Market Risk (continued)

37.2.3 Currency risk

Currency risk 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

	2019			**2018**		
Currency	Net open position €'000	Change in exchange rates %	Effect on profits €'000	Net open position €'000	Change in exchange rates %	Effect on profits €'000
US Dollar	109	+10	11	153	+10	15
British Pound	(35)	+10	(4)	(19)	+10	(2)
Russian Rouble	(55)	+30	(17)	(29)	+30	(9)
Other currencies	(5)	+10	(1)	(38)	+10	(4)
US Dollar	109	-10	(11)	153	-10	(15)
British Pound	(35)	-10	4	(19)	-10	2
Russian Rouble	(55)	-30	17	(29)	-30	9
Other currencies	(5)	-10	1	(38)	-10	4

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 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 2019

37. RISK MANAGEMENT (continued)

37.3 Liquidity Risk (continued)

Key liquidity ratios

The Group must comply, among others, with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61.

LCR is calculated as the ratio of high-quality liquid assets over the expected net liquidity outflows over a period of 30 days, as these net outflows are specified under a stress test scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Group as at 31 December 2019 was 304% (31 December 2018: 253%) and the Bank 304% (31 December 2018: 220%).

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

THE GROUP

2019	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	Over five years €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	424	1.684	1.484	3.592
Client deposits	327.215	50.183	115.312	3.588	-	496.298
Deferred taxation	-	-	-	-	350	350
Accruals and other liabilities	4.808	63	282	800	519	6.472
	332.023	50.246	116.018	6.072	2.353	506.712
OFF BALANCE SHEET						
Guarantees issued	4.321	459	15.424	17.066	2.495	39.765
Undrawn facilities	3.214	4.852	14.744	13.106	-	35.916
	7.535	5.311	30.168	30.172	2.495	75.681

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.3 Liquidity Risk (continued)

THE GROUP (continued)

2018	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 one year €'000	Carrying amount €'000
NON-DERIVATIVE LIABILITIES						
Bank borrowings	-	-	403	1.684	1.926	4.013
Client deposits	325.578	63.995	124.913	1.504	-	515.990
Liabilities of subsidiary company held for sale	-	-	27	-	-	27
Deferred taxation	-	-	-	-	329	329
Accruals and other liabilities	23.373	342	-	1.806	-	25.521
	348.951	64.337	125.343	4.994	2.255	545.880
OFF BALANCE SHEET						
Guarantees issued	2.754	1.391	10.689	11.180	5.607	31.621
Undrawn facilities	2.700	4.602	17.121	15.218	-	39.641
	5.454	5.993	27.810	26.398	5.607	71.262

THE BANK

2019	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
LIABILITIES						
Bank borrowings	-	-	424	1.684	1.484	3.592
Client deposits	327.215	50.183	115.312	3.588	-	496.298
Deferred taxation	-	-	-	-	350	350
Accruals and other liabilities	4.476	63	282	800	519	6.140
	331.691	50.246	116.018	6.072	2.353	506.380
OFF BALANCE SHEET						
Guarantees issued	4.321	459	15.424	17.066	2.495	39.765
Undrawn facilities	3.214	4.852	14.744	13.106	-	35.916
	7.535	5.311	30.168	30.172	2.495	75.681

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.3 Liquidity risk (continued)

THE BANK (continued)

2018	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
LIABILITIES						
Bank borrowings	-	-	403	1.684	1.926	4.013
Client deposits	325.578	63.995	124.913	1.504	-	515.990
Deferred taxation	-	-	-	-	329	329
Accruals and other liabilities	23.373	342	-	1.479	-	25.194
	348.951	64.337	125.316	4.667	2.255	545.526
OFF BALANCE SHEET						
Guarantees issued	2.754	1.391	10.689	11.180	5.607	31.621
Undrawn facilities	2.700	4.602	17.121	15.218	-	39.641
	5.454	5.993	27.810	26.398	5.607	71.262

Encumbered assets

Balances with other banks as at 31 December 2019 do not include encumbered amounts (31 December 2018: €899 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 ensures that these are adhered to 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.4 Operational risk (continued)

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

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

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. All Group subsidiaries adhere to the mandatory capital requirements of the respective supervisory authorities.

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 minimum Pillar I total capital requirement is 8,0% which should be met by at least 6,0% 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 under Pillar I capital requirements. In February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, the Central Bank of Cyprus determined the additional capital requirements to be met by CET 1 capital to be 5,2% of the Group's risk weighted assets. In addition to the total SREP capital requirement, the Group is also required to maintain a capital conservation buffer of 2,50% from 1 January 2019 (2018: 1,875%). For 2019 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 12,20% (2018: 11,575%) and an overall capital adequacy ratio of 15,70% (2018: 15,075%).

The Group's CET 1 and overall adequacy ratio as at 31 December 2019 stood at 15,38% and 17,07% respectively on a transitional basis and 14,56% and 16,26% respectively on a fully loaded basis, being within the minimum regulatory requirement both on a transitional and on a fully loaded basis. The overall capital ratio is above the minimum capital requirement of 15,70% by 137 basis points. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimize capital usage and maintain capital ratios above minimum requirements.

During 2019 the Bank implemented successfully its Financial and Capital Plan ("the Plan"), the main objectives of which were to enhance the capital adequacy through both a rights issue as well as management actions, to ensure that the Group has sufficient resources and capital to support its current activities as follows:

1. Intensified efforts to de-risk its balance sheet and successfully resolved NPE cases that would contribute towards the improvement of the Group's capital position by both reducing RWA and enhancing its capital base.
2. On 12 March 2019 an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.5 Capital management (continued)

3. The Bank completed successfully the capital raise. On 22 March 2019 existing shareholders subscribed to an amount of €3,3 million while the remaining €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June.
4. Completed the voluntary winding-up of JSC Cdbbank and proceeded with the repatriation of €1,2m capital and €2,5 million subordinated loan. The current exposure of the Bank in Russia is just €700 thousand made up of loans and properties.
5. On 24 September 2019, in an effort to further strengthen the Capital Position of the Bank, an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, where it was resolved to convert the non-redeemable capital account of €4 million to share capital through the issue and allotment of a total of 4.284.322 shares with a nominal value of €0,20 each at €0,9336 per share to a group of existing shareholders.

In addition to the capital raise, the Group's capital base was further strengthened by €3,3 million through organic growth coming from internally generated profitability of €2,0 million (before the transfer of the foreign exchange reserve to the Income Statement) and positive valuation differences of €1,3 million reported through Other Comprehensive Income.

At the same time, the Bank's RWA exhibited a reduction which can be attributed mainly to the following:

- NPE Workouts and REO disposals;
- Liquidity optimisation;
- Restricted new lending;
- Completion of JSC Cdbbank voluntary winding-up.

Going forward and based on the Bank's approved Budget for 2020-2022 the Capital Adequacy Ratio of the Bank is projected to be maintained 1% above the Minimum Regulatory Requirement of €15,70% throughout the 3-year period. The 3-year budget does not include additional capital injection over the next three years, however, the Management of the Bank will monitor the situation in a forward looking approach and should the need arise will advise the MB accordingly which is ready to take all the necessary steps to boost the Bank's capital buffers as and when deemed necessary.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RISK MANAGEMENT (continued)

37.5 Capital management (continued)

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.

Additional Tier I Capital: It includes the Perpetual Unsecured Subordinated Note (note 32).

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

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.

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

	THE GROUP		THE BANK	
	2019	2018	2019	2018
Transitional basis:	€'000	€'000	€'000	€'000
Regulatory capital				
Common equity Tier I capital	45.686	38.412	45.659	38.380
Additional Tier I capital	5.000	5.000	5.000	5.000
Total regulatory capital	50.686	43.412	50.659	43.380
Risk weighted assets				
Credit risk	269.214	285.882	270.356	289.281
Market risk	-	-	-	-
Operational risk	27.750	25.313	27.000	24.718
Credit value adjustment	-	138	-	138
Total risk weighted assets	296.964	311.333	297.356	314.137
CET1 Capital ratio	**15,38%**	**12,34%**	**15,35%**	**12,22%**
T1 Capital ratio	1,68%	1,61%	1,68%	1,59%
Overall capital adequacy ratio	**17,07%**	**13,94%**	**17,04%**	**13,81%**
Fully loaded basis:				
CET1 Capital ratio	14,56%	11,40%	14,53%	11,28%
Overall capital adequacy ratio	16,26%	13,03%	16,23%	12,89%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019 was 8,52% (31 December 2018: 6,94%), and the Bank 8,52% (31 December 2018: 6,95%), well above the 3% minimum threshold applied by the competent authorities.

38. CATEGORISATION OF FINANCIAL INSTRUMENTS

THE GROUP	Carrying amount €'000	Securities classified at FVTPL €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2019					
Assets					
Cash and Balances with Central Banks	180.693	-	180.693	-	-
Balances with other Banks	21.663	-	21.663	-	-
Loans and advances	227.698	-	227.698	-	-
Equity investments	850	-	-	850	-
Debt securities	95.851	-	-	95.851	-
	526.755	-	430.054	96.701	-
Liabilities					
Bank borrowings	3.592	-	-	-	3.592
Client deposits	496.298	-	-	-	496.298
Loan capital	5.000	-	-	-	5.000
	504.890	-	-	-	504.890
31 December 2018					
Assets					
Cash and Balances with Central Banks	201.997	-	201.997	-	-
Balances with other Banks	29.770	-	29.770	-	-
Derivatives	128	128	-	-	-
Loans and advances	246.449	-	246.449	-	-
Equity investments	996	-	-	996	-
Debt securities	79.622	-	-	79.622	-
	558.962	128	478.216	80.618	-
Liabilities					
Bank borrowings	4.013	-	-	-	4.013
Client deposits	515.990	-	-	-	515.990
Loan capital	5.000	-	-	-	5.000
	525.003	-	-	-	525.003

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

THE BANK	Carrying amount €'000	Securities classified at FVTPL €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2019					
Assets					
Cash and Balances with Central Banks	180.693	-	180.693	-	-
Balances with other Banks	21.383	-	21.383	-	-
Loans and advances	227.698	-	227.698	-	-
Equity investments	850	-	-	850	-
Debt securities	95.601	-	-	95.601	-
	526.225	-	429.774	96.451	-
Liabilities					
Bank borrowings	3.592	-	-	-	3.592
Client deposits	496.298	-	-	-	496.298
Loan capital	5.000	-	-	-	5.000
	504.890	-	-	-	504.890
31 December 2018					
Assets					
Cash and Balances with Central Banks	201.997	-	201.997	-	-
Balances with other Banks	29.634	-	29.634	-	-
Derivatives	128	128	-	-	-
Loans and advances	246.449	-	246.449	-	-
Equity investments	673	-	-	673	-
Debt securities	79.622	-	-	79.622	-
	558.503	128	478.080	80.295	-
Liabilities					
Bank borrowings	4.013	-	-	-	4.013
Client deposits	515.990	-	-	-	515.990
Loan capital	5.000	-	-	-	5.000
	525.003	-	-	-	525.003

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

THE GROUP

	2019			2018		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
ASSETS						
Cash and balances with central banks	175.825	4.868	180.693	197.016	4.981	201.997
Balances with other banks	21.663	-	21.663	29.770	-	29.770
Derivatives	-	-	-	128	-	128
Loans and advances	71.633	156.065	227.698	30.926	215.523	246.449
Investments in equities	850	-	850	813	183	996
Investments in debt securities	90.151	5.700	95.851	25.535	54.087	79.622
Assets of subsidiary company under voluntary wind up	-	-	-	3.774	252	4.026
Premises and equipment	-	6.979	6.979	-	6.456	6.456
Intangible assets	-	998	998	-	1.065	1.065
Receivables and other assets	13.128	7.774	20.902	1.123	15.505	16.628
Total assets	**373.250**	**182.384**	**555.634**	**289.085**	**298.052**	**587.137**
LIABILITIES						
Bank borrowings	424	3.168	3.592	403	3.610	4.013
Client deposits	492.710	3.588	496.298	514.486	1.504	515.990
Liabilities of subsidiary company under voluntary wind up	-	-	-	27	-	27
Deferred taxation	-	350	350	-	329	329
Accruals and other liabilities	5.153	1.319	6.472	23.715	1.806	25.521
Loan capital	-	5.000	5.000	-	5.000	5.000
Total liabilities	**498.287**	**13.425**	**511.712**	**538.631**	**12.249**	**550.880**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY (continued)

THE BANK

	2019			2018		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
ASSETS						
Cash and balances with central banks	175.825	4.868	180.693	197.016	4.981	201.997
Balances with other banks	21.383	-	21.383	29.634	-	29.634
Derivatives	-	-	-	0	128	128
Loans and advances	71.633	156.065	227.698	30.926	215.523	246.449
Investments in equities	850	-	850	490	183	673
Investments in debt securities	89.901	5.700	95.601	25.535	54.087	79.622
Subsidiary company under voluntary wind-up	-	-	-	3.999	-	3.999
Investments in subsidiary companies	12.523	7.075	19.598	180	15.034	15.214
Premises and equipment	-	6.974	6.974	-	6.445	6.445
Intangible assets	-	978	978	-	1.055	1.055
Receivables and other assets	605	744	1.349	943	461	1.404
Total assets	**372.720**	**182.404**	**555.124**	**288.723**	**297.897**	**586.620**
LIABILITIES						
Bank borrowings	424	3.168	3.592	403	3.610	4.013
Client deposits	492.710	3.588	496.298	514.486	1.504	515.990
Deferred taxation	-	350	350	-	329	329
Accruals and other liabilities	4.821	1.319	6.140	23.715	1.479	25.194
Loan capital	-	5.000	5.000	-	5.000	5.000
Total liabilities	**497.955**	**13.425**	**511.380**	**538.604**	**11.922**	**550.526**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. SHAREHOLDERS

The shareholding structure at 31 December 2019 is shown below:

	Shareholding structure as at 31.12.2019
Path Holdings Ltd	21,34%
Constantinos Shiacolas	18,37%
Delphis Investments Ltd	15,67%
Leon Investment SARL	10,62%
Intergaz Ltd	10,44%
Leonidas Ioannou	7,63%
Loramina Trading Ltd	6,80%
7Q Holdings Ltd	4,55%
7Q Invest I Multi Opportunities	2,42%
CLR Investment Fund Public Ltd	1,41%
Holdings below 1%	0,75%

On 29 January, 2019 the Central Bank of Cyprus suspended the voting rights of Loramina Trading Ltd on the basis of the fit and proper criteria.

41. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

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

	2019	2018
	€'000	€'000
Director emoluments		
Executives		
Salaries	236	184
Employers contributions for social insurance, etc	27	15
Retirement benefits	13	2
Compensation for terminations	-	165
	276	366
Non-executives - fees	202	207
	478	573
Key management personnel emoluments		
Salaries	206	254
Employers contributions for social insurance, etc	20	19
Retirement benefits	19	23
Compensation for terminations	170	-
	415	296
Total	893	869

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. RELATED PARTY TRANSACTIONS (continued)

THE GROUP AND THE BANK (continued)

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 2019 and 2018 include the remuneration of the General Manager Administration and General Manager Banking.

Transactions with members of the Management Body and connected persons

	2019	2018
	€'000	€'000
Loans and advances	1.740	204
Deposits	15.261	438
Unutilised limits	2.316	57
Interest income for the year	81	10
Interest expense for the year	1	3

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.

	2019	2018
	€'000	€'000
Loans and advances	194	193
Deposits	128	137
Guarantees and unutilised limits	21	41
Interest income for the year	1	1
Interest expense for the year	1	3

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 notes 21 and 22 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders

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

	2019	2018
	€'000	€'000
Loans and advances	1.208	855
Deposits	3.638	3.296
Guarantees and unutilised limits	492	2

Interest and other income in relation to shareholders with significant influence and connected persons for the year ended 31 December 2019 amounted to €67 thousand (31 December 2018: €83 thousand) while the interest expense was €3 thousand (31 December 2018: €12 thousand).

During the year ended 31 December 2019, there were no purchases of goods and services from Shareholders with significant influence and their connected persons as defined above (31 December 2018: nil).

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

42. LITIGATION

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As at 31 December 2019, 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. While the outcome of these matters is inherently uncertain the Bank considers, based on the information available, that the probability of outflow is low and therefore no provision was recorded against these cases.

43. OPERATING ENVIRONMENT

The Cyprus economy continued to grow in 2019 albeit with lower growth rates than 2018 and an annual increase of 3.2%, which is below the growth rates registered in 2018 but above euro area average, at the same time unemployment continue to drop and reached 7% compared to 8% in 2018 and 11% in 2017.

Growth continued to be driven by increasing domestic demand from private consumption as a result of the increase in household disposable income (due to mainly the increase in employment) as well as the large private investment financed by foreign capital. Despite growth in economic activity, inflation

43. OPERATING ENVIRONMENT (continued)

continued to remain subdued and even reduced compared to 2018. Reduction in HICP inflation is mainly attributed to a reduction in energy prices, the decision to reduce excise duties on main fuels and the increase in domestic competition, factors that resulted in a reduction in the prices of almost all HICP main subcategories.

Almost all sectors of the economy (with the exception of the Financial Services Activity Sector) recorded growth despite low productivity. Sectors contributing more include construction, information and communication, trade, transportation, hotels and restaurants as well as professional, scientific and administrative activities. The construction sector recorded the highest growth reflecting the developments in the real estate sector. On the other hand, growth in the tourism sector decelerated mainly due to the re-opening of competing destinations.

The real estate sector continued to recover as a result of foreign investment, new domestic borrowing and the reduction of unemployment. Demand for real estate, despite a sharp increase in the first months of 2019, subsequently declined mainly as a result of the adoption of stricter eligibility criteria for the Cyprus Investment Program. Despite the continued recovery of the sector, as well as of the Cyprus' GDP, residential property prices rose moderately, with the exception of areas affected by specific factors, such as the Limassol and Larnaca coastal fronts.

With respect to the Banking Sector, efforts for balance sheet consolidation and reduction of NPEs continued, at the same time new lending to the real economy increased with new lending extended mainly to non-financial corporations. An increase was also observed in resident deposit while even though non-resident deposits continued to decrease (partly due to stricter AML guidelines) a reduction in outflow rates was registered.

Banks' profitability continue to remain under pressure mainly due to low investment yields, reducing lending rates and dropping net interest margins, as a result of the historically low interest rates, which (given the most recent monetary policy decisions of the ECB) are expected to prevail for a long period of time.

In an environment of ample bank liquidity, and over-indebted domestic private sector (which limits the possibility of sustainable new lending) the prolonged low interest rates create additional risks to banks' profitability, given that banks are required to maintain a high amount of deposits at the ECB at a negative interest rate. In their efforts to enhance their profitability, Banks should avoid excessive risk taking and credit risk under-pricing which could have a significant impact on their sustainability.

Enhancing profitability and addressing the NPE issue remain amongst the Banks top priorities. In this respect, Banks continued to focus on improving the efficiency of their operating model in order to become more cost effective and to improve their profitability. At the same time, despite the significant reduction in NPEs since their pick in 2015, with the largest decrease (c. €10.5bn) been recorded in 2018 mainly due to the transfer of CCB's NPFs out of the banking system and the sale of NPFs by other banking institutions they still remain at substantially higher levels than the 3% average for the eurozone. Addressing the NPE issue continuous to be very challenging and entails challenges that are likely to deepen in the near future due to the decisions to effect amendments to the insolvency legal

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For the year ended 31 December 2019

43. OPERATING ENVIRONMENT (continued)

framework (which are expected to impact its effectiveness) and the unanticipated limited initial participation in the ESTIA scheme. It should be noted that despite the significant decrease in NPEs, these continue to remain in the real economy and to impact growth negatively.

Prior to the outburst of COVID-19 the Cypriot economy was on a positive course of economic activity and the robust growth was expected to continue albeit at lower growth rates. At the same time, downside risks relating to factors such as external geopolitical developments (Brexit, trade war, etc.), the high level of private debt and the associated challenges faced by the banking sector made the Cypriot economy vulnerable to shocks.

In the first months of 2020 a crisis like no other emerged from a coronavirus pandemic, that started from patient zero in the city of Wuhan in China and transmitted within a few months (with exponential growth of contagion) to almost all countries around the globe. Tragically, the world was caught off guard. The inability of health systems to respond to the crisis even in the most developed countries (despite the courageous efforts of medical professionals) has led to the loss of many lives.

In an effort to contain the virus, unprecedent extreme measures to restrict mobility were taken including the closure of schools, public places, closure of retail businesses and entertainment places as well as cross-border and domestic travel restrictions, closure of businesses etc. were taken which led to a global lockdown. The Great Lockdown, as it has been named, has derailed the already subdue growth of the world economy. The macroeconomic forecasts have been revised from moderate growth to sharp decline and a recession even deeper to that experienced in 2008-09 is expected.

Many sectors of the economy including Retail and Wholesale Trade, Real Estate Services Accommodation and food services (tourism) Construction Air transport Arts, entertainment and recreation and Other service activities, have been impacted directly. These sectors constitute around 30-40% of total output in most economies. The most significant impact is expected on the tourism sector which faces a decrease as high as 70%. In addition to the direct impact on output economic growth is also affected by lower due to lower consumer spending ranging in some categories of goods and services from 50% to 100%.

Governments and institutions in all European Countries and the US have taken support measures which aim to preserve liquidity and support the rapid reboot of the real economy. Such measures include support measures to affected businesses as well as allowances to affected individuals/ employees.

There is still significant uncertainty around macroeconomic estimates as the depth of the recession and the shape of the recovery depend on the extent of the lockdown measures as well as the effectiveness of the government support measures. The IMF published in the end of April 2020 its baseline scenario for world economic growth which is based on the expectation that the pandemic fades in the second half of 2020. Based on these projections, global growth is projected to shrink dramatically in 2020 (-3%). A partial recovery is projected for 2021 at 5.8%, with above trend growth rates, but the level of GDP will remain below the pre-virus trend, with considerable uncertainty about the strength of the rebound.

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43. OPERATING ENVIRONMENT (continued)

The Cyprus economy is expected to be hit hard by the pandemic with a drop in economic growth by 6.5% in 2020 followed by a partial recovery of 5.6% in 2021. Most of the sectors contributing to economic growth such as tourism, construction, wholesale and retail trade and real estate have been impacted, these sectors contribute more than 40% of the total output. In addition, the impact to the tourism sector is anticipated to the longer lasting due to two factors mainly: (i) lockdown measures and travel restrictions from countries with high tourist flows such as the UK as well as (ii) the impact of the shock to the aviation industry.

At the same time, the measures taken by the Cypriot government to support the real economy are impacting negatively the country's fiscal position. The measures taken so far have stem the positive trajectory for the reduction of the already high debt to GDP. At the same time the fiscal deficit is expected to reach 4% of GDP. It should be noted that Cyprus ability to take adequate social and economic measures in a scenario of a prolong pandemic or a second outburst is limited.

Undoubtedly the current conditions create additional pressure on Cypriot Banks' business model. In the coming years Banks are expected to face additional pressure on their profitability from increased impairments as a result of new defaults and re-defaults as well as lower income (fee/commission and interest) due to lower rates and volumes. In addition, plans for the consolidation of their balance sheets and the improvement of their asset quality are expected to be delayed due to postponement of planned or anticipated trades of NPEs. At the same time, Banks are expected to expedite their plans for digital transformation which will enable them to improve the efficiency of their business model and optimise their cost base.

There is still considerable uncertainty around the forecast, the pandemic itself, its macroeconomic fallout, and the associated stresses in financial and commodity markets. The possibility of a much worse growth outcome is possible and perhaps likely. This would follow if the pandemic and containment measures last longer, emerging and developing economies are even more severely hit, tight financial conditions persist, or if widespread scarring effects emerge due to firm closures and extended unemployment. In this respect, the IMF also provided, in its April report, alternative macro-economic scenarios. The worst alternative scenario which considers a longer outbreak in 2020 plus new outbreak in 2021 forecasts that the economy could shrink by c. 8% in 2020.

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44. EVENTS AFTER THE REPORTING PERIOD

The COVID-19 pandemic has caused so far, a massive shock to the global economy and is causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's IFRS9 estimates of expected credit loss provisions in 2020.

The consolidated and standalone financial statements were approved and authorised for issue on 26 May 2020.